Performance and attitude of firms in relation to a major expansion of their potential market; The case of British manufacting industries and the UK accession to the EEC.

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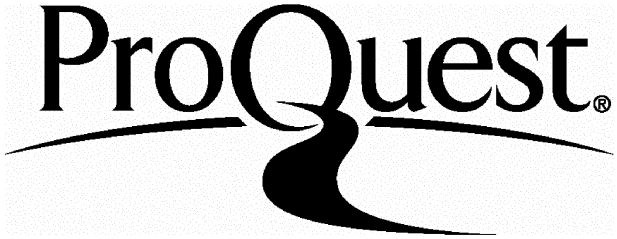

SUMMARY "ABSTRACT" OF THE WORK

The study stands in two volumes:

Volume 1, being the thesis, consists of eight chapters. In the first chapter we discussed the aims and origin of the research. We traced the motivation in undertaking it, to an early work, which we previously conducted for a related study; together with the work done by similar studies or surveys. In the meantime we revealed the impact of such a custom union and a free trade area on the economic performance of the member countries and their industries.

In Chapter Two, we indicated the method we proposed for the study. However, in so doing, we reviewed the methods of similar studies and the limitations attached to them.

Chapter Three was devoted to a review of the literature related to the study.

In Chapter Four, we discussed the preliminary survey; the questionnaire. As it was the first stage in the investigation, the questions answered, the responses and analysis of the replies were indicated.

This was followed by the main survey, for which we chose as case studies, a representative sample of firms; British based manufacturing industries. In Chapters Five and Six we indicated the base on which those firms were selected, the way the collected data was presented, the approaches to the analysis; then we proceeded with the analysis.

We conducted a supporting study, which dealt with the overseas trade, in a selected manufactured commodities in specific industrial groups "section". The purpose was to relate the trade trend in each industry to those performed by the studied firms, and to relate both to the UK overall overseas trade performance. This is the subject of Chapter Seven.

The results were obtained and the study was concluded in Chapter Eight.

Volume 2 includes twenty-one case studies; as indicated above; that were the subject of the main survey.

VOLUME I : The Thesis

CONTENTS OF VOL. I

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Nabil Hamed Ezz Moustafa
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INTRODUCTION

(i) Background

This Study was an attempt at sharing the debate, assessing the impact and evaluating the results of Britain's membership to the European Economic Community; EEC. We were concerned, in particular, with the industrial manufacturing sector. This is because industry for the UK; as it is indeed in any of the industrialised countries; is the backbone of the country's welfare and prosperity, the might she falls back to in peace and war, and her passport to the club of nations that lead the Western World.

In 1957, six European countries: Belgium, France, Federal Republic of Germany, Italy, Luxembourg and the Netherlands; signed the Treaty of Rome. They agreed to join a custom union and to form one single trading, farming and industrial system.

Their population on the eve of Britain's entry; December 1972; was 191 million. With the new members; the UK, Denmark and Ireland; the population of the nine was then 255 million. This population is, on one hand, a production resource as it is composed of the most technically trained groups of people in the world, who are capable of producing wealth; taking into account the resources at their disposal. On the other hand, they are willing and able consumers in using that wealth.

Moreover, since the six formed the Community and until 1970, there has been a growth in the most important factors contributing to their welfare, namely the growth of employment, industrial productivity, productivity of services and agriculture output. The total percentage of these increases for each member country exceeded, significantly, that of the UK.

Those features of the favourable economic performance of the original six, were taking place, while Britain willingly was left out of the Community, as she participated in a European Free Trade Area (EFTA). In January 1973, Britain joined the Community after several applications and unacceptable terms of entry. Since the time of the first application; 1961-1963; a public debate, both political and economical, has taken place. This focused on the question of the likely advantages and/or disadvantages of membership.

The political dimension of the argument put forward by the anti-marketeers centered on the question of sovereignty and the possible influence of the EEC institutions on national decision making. The pro-marketeers viewed the task in a European and an international concept. The latter put the case of a united Europe and the dependent solutions.

The economic argument was divided between those who claimed that the British economy can only survive within the larger market provided by Europe and those who believed that Britain would be flooded by the more efficient European industries.

The argument was settled by a referendum in May 1975, which came out in favour of the membership by 2:1.

(ii) The Economic Case of Membership

A number of arguments have been advanced to support the economic advantages of having an access to the larger market:

I Tariff elimination would secure the benefits of increased specialisation and better division of labour.

II The creation of an integrated, large market provides sharper competition, greater opportunities to exploit economies of scale. This would increase productivity and enhance a faster growth of real income.

III Greater rise in living standards since 1958 in the EEC countries.

IV The effect of greater market size in reducing waste by aiding the expansion of the competent at the expense of the incompetent.

V The gains from trade creation and increased investment.

Opposite arguments were put forward as follows:

A There is overwhelming evidence that the fast increase in output and living standards within the six has nothing to do with the existence of the EEC, and that for Britain

membership of the EEC will involve a significant net loss in economic terms.(*)

B Kaldor classified the magnitude of the costs of entry that could overshadow the possibilities of advantages, into the following(**):

1. The net UK contribution to the EEC budget would reach the upper end of the government estimate, which is high.

2. The cost of buying expensive European food as a substitute to that which had been obtained cheaper from the Commonwealth.

3. The cost of financing the additional outflow of capital to EEC countries, consequent upon the establishment of free movement of capital within the EEC.

4. The cost in terms of domestic resources of increasing exports and/or reducing imports sufficiently to eliminate the balance of payments deficit caused by the above three influences.

(*) Peter Oppenheimer in a letter to The Times, 10 March 1971.

(**) N. Kaldor, The Truth about the Dynamic Effects, New Statesman, 12 March 1971.

(iii) The Study in hand

We were concerned with the effect of entry on manufacturing industry. As stated above, the pro-marketeers have emphasized the benefits in terms of a large and fast-growing home market, its impact on industry as regard to growth, efficiency and economies of scale. Hence, we undertook to assess the effect of entry on the attitude and performance of British based manufacturing industries.

Although the aim and the origin of the study will be discussed in Chapter I, it is useful to point to the range of factors that British trade associations and companies sought in the European integration(*):

"(i) British industry and commerce can ill afford to be at any trade disadvantages in the EEC market, which is of vital importance for UK visible and invisible exports.

(ii) Trade benefits already gained or in prospect by the end of the transition period.

(iii) Tariff-free access to the EEC is essential for British industry to exploit the potential offered by its largest and nearest export market area, and recoup ground lost during Britain's exclusion.

(iv) It is much more important to remove other barriers to visible trade.

(vi) The progress towards opening up the customs union into a genuine Common Market made by steps being taken to remove

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(*) British Industry and Europe, A Report by the Confederation of British Industry (CBI) Europe Committee, March 1975.

barriers to intra-Community business operations.

(vii) Secure access to the larger market.

(viii) The need to create a harmonised environment in which industry can operate effectively on a European scale.

(ix) Benefits brought by trade associations' closer relations as equal partners with their counterparts in the other EEC member states.

(x) The promotion of industrial cooperation and reorganisation within the Community provides the necessary opportunities for greater industrial and commercial enterprise upon which the future economic growth and competitive strength of Europe depend.

(xi) Industrial restructuring from a European base is essential for many enterprises to compete effectively in world market.

(xii) A share in the Community's economic growth.

(xiii) Membership enables Britain to influence, and British industry to share in, the benefits from the Community's policies designed to alleviate the problems faced by member states, regions or industries as economic integration within the Community proceeds.

(xiv) British industry is able to contribute to the development of European industry's views on other pressing economic problems."

The methods we adopted for the research in hand are discussed in Chapter II, but it is appropriate to indicate here the three lines of investigation that we followed:

First: A preliminary survey in which we asked industrialists how they expect membership, the changes brought with it, would affect their trade in the home and in the partners' market. What is the impact of the enlarged market on their plans and policies?

Second: The main survey, for which we selected a representative sample of firms; British based manufacturing industries; as case studies in order to assess, clarify and intensify the views we received in the preliminary survey.

Third: A supporting study to establish the comparative cost advantages of a selected commodities in certain groups and "sections" of industries.

These were the subject of the eight chapters that covered our study, together with a literature survey; results obtained and conclusions reached.

CHAPTER I

ORIGIN AND AIM OF THE RESEARCH

The emergence of the European Economic Community as a significant industrial giant made a considerable number of specialists in different fields speculate as to what major changes the Community would bring in their relevant field. One of these is the U.K. Manufacturing Industries Sector. The EEC and EFTA are the first Custom Unions and the first free trade areas created between as large a number of industrially advanced countries. It is well known that they show certain important differences; particularly as regards to their economies, but in major respects they are alike. In the industrial sector they have chosen the complete abolition of internal tariffs as the first and principal means of achieving the integration desired.

The response of the business community to the freeing of internal trade, thus came to set the direction and pattern of structural change in the EEC. It did not take long, however, before it became apparent that the freeing of trade could not be the last word in integrating European industry. A growing number of questions came up for discussion and called for solutions and exploitation on Community or intergovernmental level: energy, raw material supplies, depressed areas, developing industries, research, regional policy, multinational enterprises and more.

The simplification inherent in every economic analysis can and should be based on the purpose in hand. Given the many and often disparate factors which react on a market economy, the subject matter of this research can perhaps best be clarified by pointing out the following:

(1) After British adherence to the Community, it has been emphasised in British industrial circles that the opportunities there should be exploited.

The CBI Europe Committee [1] in its report to the CBI Council, pointed out that the Community was expected to achieve the wide base essential to industries involved in advanced technologies or benefiting from economies of scale, it promised enterprises free access to a market of 260m. people for their goods and services, it provided their market impetus, scope and possibilities for long-term planning and investment. The Community also aims to ensure that its industry is restructured in a manner essential to compete effectively in world markets with those of other major economic states or groupings.

One element emerging from the mentioned report of the CBI Committee, with which this study is concerned, is that industries will be benefiting from the enlarged market. What the attitude is of firms towards that market (the EEC), their reaction and what they have achieved are the cornerstone of this study.

(2) Firms have to deal with new market concepts. The process of change could be observed in the geographic extension of markets. That takes in both the general liberalization of trade and the formation of regional markets in Europe which brought about by political decisions. The advent of the EEC, and British adherence to it, meant that companies had their market pictures altered for them (especially after the transition period which ended on the end of 1977). Obviously the merger of several developed and highly organized national markets did not of itself create one large common market. However, the very decisions to integrate laid the foundation for this objective and the phased dismantling of tariffs and other changes within the institutional framework set off a chain of events in the same direction.

Whereas firms used to gear their policies to the demands imposed by marginal changes in the British market, they now had to pay heed to large changes and short-term consequences that they had never experienced before. (It has to be noted in that regard that firms that would be affected also had wider interests and had to be sensitive to world trade conditions.) The pattern of competition that had evolved in their respective sectors, both at home and abroad, no longer held true. The situation of more or less pronounced oligopoly which characterizes many industries in most of the EEC countries, where in each, before the set up of the Community, few firms had carved out a lion's share of the markets, took on a different aspect when it appeared that double and treble their numbers might soon be operating in a large and potentially common market.

So the British firms faced with operating in a larger market, and faced with the above prospects, have had to adapt themselves to the new structure of this extended market.

The motivation of this study began with an early study(*) which tried to measure the effect of such a Customs Union on the economies of member states. More specifically it sought to measure the effect of the extended market on two specific variables which represent the well-being of the economy, namely, GNP and capital assets formation. The conclusions reached from the macro-economic point of view were encouraging. These were that the effect on the economy of the member states was positive:

(*) The dissertation towards an M.Sc. degree, was submitted to the Graduate Business Centre, the City University, London, 1971.

(1) Since the treaty came into force, all member countries have experienced a rapid growth in their trade with the other Community countries.

(2) The increase in trade has made a big contribution to the very rapid growth of all Community countries. During the period 1966-1970, the rate of growth exceeded forecasts in all the countries of the Community, especially in:

(i) Federal Germany, 4.7% growth of gross national product per year, as against a forecast of 3.5% per year.

(ii) in Italy, 6.0% as against 5.0%.

and (iii) in the Netherlands 5.2% as against 4.6%.

(3) The countries which had the lowest incomes when the Common Market was set up have benefited most from integration. As a result, there has been a steady reduction in the difference between incomes per head in the member countries as is shown in Table I-1.

TABLE I-1

Gross National Product Per Capita (in Units of accounts at Current Prices and exch. rates)		
Country	1958	1970 (estimated)
Germany (FR)	1080	2999
France	1204	2873
Italy	612	1701
Netherlands	845	2418
Belgium	1158	2589
Luxembourge	1402	2837
Community	963	2530

Source: Fourth General Report on the activities of the Communities - Luxembourg, February 1971.

(4) In 1970 private consumption in the Community went on rising very rapidly. In all probability the increase was due mainly to a rapid rise in the incomes of households. Income from wages and salaries rose in all member states, the increase ranging from 10% to 20%.[2] Table I-2 shows the quantitative increase of certain representative goods.

TABLE I-2

Television sets declared and telephones installed in January 1968 and January 1969

	TV sets				Telephones installed			
	'000		per '000 inhabitants		'000		per '000 inhabitants	
	1968	1969	1968	1969	1968	1969	1968	1969
Germany (FR)	13806	14958	231	246	10321	11249	172	185
France	8316	9252	167	184	7000	7503	140	149
Italy	7666	8099	146	150	7057	7752	135	143
Netherlands	2481	2658	197	207	2719	2912	216	226
Belgium	1779	1894	186	196	1731	1839	181	190
Luxembourg	44	52	131	154	94	98	281	290
Community	34092	36913	185	196	28922	31354	157	167
EFTA	20692	22124	219	233	22564	23869	239	252
The world	215000	235000	63	66	222400	238800	65	67

Number of motor vehicles, January 1969 - January 1970

	Passenger Cars				Utility Vehicles	
	'000		per '000 inhabitants		'000	
	1969	1970	1969	1970	1969	1970
Germany (FR)	12046	13169	199	217	1068	1129
France	11210	11860	223	236	1885	1850
Italy	8120	9028	151	167	751	834
Netherlands	2100	2325	165	180	310	314
Belgium	1806	1811	187	187	279	245
Luxembourg	79	85	235	252	12	15

Source: General Report on the Activities of the Communities, Brussels, February 1970.

(5) The GNP per person in employment from 1958 to 1968 was a high average annual growth ratio compared with the United States, the United Kingdom and Sweden as it appears in Table I-3.

TABLE I-3

Average annual growth rate
%

Country	Volume of GNP	Employment	GNP per person in employment
Germany (F.R.)	5.1	0.3	4.8
France	5.3	0.3	5.0
Italy	5.6	-0.6	6.2
Netherlands	5.3	1.1	4.1
Belgium	4.3	0.4	3.9
Luxembourg	3.4	0.5	2.9
Community	5.2	0.2	4.9
U.S.	4.7	1.9	2.7
Japan	11.0	1.6	9.4
U.K.	3.2	0.4	2.8
Sweden	4.6	0.7	3.9

Source: Statistical Office of the European Community and the OECD

(6) There has been a growth in the most important factors regarding the welfare of society in the member states, namely the growth of employment, industrial productivity, productivity of services and agriculture output, as Table I-4 indicates in comparison with the U.K.

TABLE I-4

Source of Growth / Country	Sector shift	Growth in employ-ment	Growth in industrial production	Growth in Product-ivity of Services	Growth in Agric. output	Total % increase
France	16.8	8.0	4.4	22.4	4.1	91.7
Germany	12.6	10.1	4.0	15.8	2.3	84.8
Italy	36.2	-7.0	34.8	27.4	6.8	98.3
Belgium	7.5	5.7	27.7	15.9	1.5	58.2
Netherlands	9.2	16.1	35.6	23.4	4.5	88.9
U.K.	2.0	5.0	20.1	10.0	1.4	38.4

Source: O.E.C.D. the growth of output, December 1970.

The above evidences led to the conclusion that the extended market had, accordingly, affected the operation of the firms working within it. We were concerned, in particular, with the opportunities opened to the UK manufacturing sector.

The third report [3] made by a Commission for the Community Parliament, stated:

> "The establishment of a large competitive market with the characteristics of an internal or domestic market has been the central pivot of Community action. This aim is justified by the benefits in terms of productivity, efficiency and economies of scale obtained from having such a market."

This statement, really formalised the direction of the research in hand. Having tackled the subject from the macro-economic point of view during the earlier study, the scope of the present study is focused on the micro-economic point of view.

More precisely, what would be the effect of trading in such a market on the structure, planning, business policy and strategy of manufacturing industries in the U.K. More specifically, what would be the effect on the manufacturing industries' policies regarding pricing, re-organization, growth, investment, R and D, marketing, competition, productivity and economies of scale.

Questions would have to be raised with a selected number of manufacturing industries aimed at getting answers to the above policies and options. For example:

(a) Would operating in a common market give a substantial number of producers the opportunity of increasing their efficiency by producing on a large scale and by adapting their production units to the larger market?

(b) To what extent the most dynamic enterprise would succeed in taking advantage of the opportunities added by British entry into the EEC.

One of the most relevant studies to the present one is that undertaken by Han and Leisner [4]. They tried to measure the effect of British entry into the EEC on the pattern of manufacturing production. Although they

foresaw the limitations(*) they faced in approaching their study, their aims and conclusions must be indicated as background to our study.

Han and Liesner forecast that some British producers, as a consequence of entry into the EEC, were likely to be favourably affected, in the sense that output would be higher than it otherwise would have been, whilst others would be adversely affected. Which sectors look promising, and which industries appear likely to find themselves with lower net sales than they would have if the UK remained outside? Their research was an attempt to tackle the preceeeding question.

Although Han and Liesner tried to conclude their study in a meaningful way by introducing a set of summary tables, which made a comparison between their results and those predicted by the Board of Trade(5) and pointing out the areas needed to be tackled in further research, they stated firmly that theirs was incomplete, saying "it does not appear that the subject matter of the present study has been investigated in detail by other research workers". From this we found another reason for the present study.

Other works contributed to the motivation of the study. An important study was undertaken by the Secretariat of the European Free Trade Association(6) regarding the effects of EFTA on the economies of member states. This study, in trying to assess the EFTA effects on trade in main products groups, stated that the most sizeable effect is recorded in textiles and clothing. Total inter-area trade in this commodity group

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(*) These limitations will be discussed in Chapter II.

was estimated to have risen by about 200 million dollars due to the establishment of the free trade area, and of this total about 115 million dollars represents trade creation. Table I-5 indicates the projected effects in the main products groups.

TABLE I-5

EFTA Effects on Trade in some Commodities between Member States in 1965 (In million US dollars)

	Effects on imports		Total import effect = export effect
	Trade creation	Trade diversion	
Leather, rubber and footwear	18	17	35
Wood and paper industry products	87	32	119
Textiles and clothing	116	85	201
Chemical and petroleum products	37	43	80
Non-metallic mineral manufactures	0	6	6
Metals and metal manufactures	24	75	99
Machinery	57	128	185
Land transport equipment	26	45	71
Watches, clocks and instruments	2	6	14
Beverages, tobacco and miscellaneous products	0	20	20
Total	373	457	830

Source: EFTA Secretariat, Geneva, 1969 - "The effects of EFTA on the Economies of Member States".

It emphasised that due to the creation of EFTA more than 100 million dollars worth of textiles and clothing were, in 1965, being produced within the area of the Association in locations which provided a clear cost saving for the area as a whole, as compared with the distribution of production which might have existed had there been no free trade area. The countries where exports benefited most were the UK and Portugal. The EFTA study stated again that there have also been interesting developments in trade in pulp and paper. Total trade in this group of commodities within EFTA has increased, as a result of the creation of EFTA, by about 100 million dollars. Of this total nearly four-fifths represents trade creation.

The effects of Free Trade Association on various semi-manufactures have been quite significant, this was to be expected as tariffs on many of these semi-processed goods were relatively high.

The study added that in engineering goods of different kinds, the effects on trade had been significant, although trade creation has generally been rather small. This has implied only a limited upward shift in EFTA Countries' imports of these products, while the export effect has been more pronounced as Table I-6 shows.

TABLE I-6

EFTA Effects on Trade in some Commodities between Member States in 1965 (In percentages)

	Total import effect as percentage of		Trade-creation effect as percentage of		Export effect as percentage of		Export effect as percentage of	
	Total imports from EFTA	Change in total imports from EFTA	Total imports	Change in total imports	Total exports to EFTA	Change in total exports to EFTA	Total exports	Change in total exports
	1965	1959 - 1965	1965	1959 - 1965	1965	1959 - 1965	1965	1959 - 1965
Leather, rubber and footwear	24	43	3	8	26	47	8	25
Wood and paper industry products	11	29	4	6	12	31	4	11
Textiles and clothing	33	55	6	31	34	58	11	33
Chemicals and petroleum products	10	23	1	3	11	23	3	8
Non-metallic mineral manufactures	7	11	0	0	7	12	2	5
Metals and metal manufactures	10	19	1	1	10	20	2	7
Machinery	15	28	1	2	16	31	3	7
Land transport equipment	17	29	2	3	16	32	4	11
Watches, clocks and instruments	12	19	2	3	12	23	2	4
Beverages, tobacco and miscellaneous products	8	14	0	0	8	13	2	4
TOTAL	12	24	1	3	12	25	3	9

Note: The denominator is always + imports in the group concerned.

Source: EFTA Secretariat, Geneva, January 1969. "The Effects of EFTA on the Economies of Member States".

Also the EFTA study stated that there is evidence of clear EFTA effects on trade in consumer durables in several of the main commodity groups.

The foregoing are part of the results of the assessment of the effect of EFTA on the trade of some of the main product groups. As the study put it, it represents only a first, though important, step in analysing the effect of the creation of EFTA on the economies of member countries. The study went on to emphasise the need for further investigation of the repercussions of the trade effects on production structure and on productivity. However, regarding the former, the EFTA study stated that there is definite evidence that the changes in pattern of trade induced by the creation of EFTA have had the expected effects on patterns of production in member countries. It recalls examples of the trend in the Scandinavian pulp and paper industries, and in others, about some cases of divergent movements towards greater specialization. Regarding productivity, the study has every reason to believe that the effect of EFTA has been advantageous. It contributes, in part, to the fast rate of growth achieved by the industrial sectors in Denmark during the years 1962 - 1969 and to the enlargement of the Danish market for industrial products. This has produced in Denmark a clear move away from sectors with low productivity to sectors with relatively high productivity. Again the study contributes the installation of modern textile factories in Portugal to this type of development.

Another interesting work is that done by the Wonnacotts[7]. In their study "Free trade between the US and Canada: the potential economic effects", they conclude that with free trade between the United States and

Canada, there would be significant changes in the North American economy. In particular, they argued, free trade would increase the possibility of specialization and would lead to greater exploitation of economies of scale. The evidence they presented in their work indicated strongly that free trade in manufactured goods would yield substantial economic gains to both Canada and USA. Most of the specialization in Canada resulting from free trade would occur within manufacturing industries. They added, however, major gains from free trade do not depend on this type of specialization. They depend primarily on the exploitation of economies of scale, defined broadly to include not only engineering economies, but also managerial and organization efficiencies associated with specialization and competition in a larger market. They again emphasised that free trade would provide an additional impetus for particularly efficient and fast growing firms in any industry, but it would speed the demise of the inefficient as far as Canada is concerned.

Ronald J. Wonnacott and David E. Bond, in their study(8) "Trade liberalization and the Canadian Furniture Industry", stated that, "if Canadian and U.S. tariffs were to be abolished, many of the higher costs of production in Canada would be eliminated".

Again, from the experience of the North Atlantic free trade area, a study(9) regarding the Canadian pulp and paper industry by W. E. Haviland, N. S. Takacsy and E. M. Cape, concluded, among other things, that the impact of free North Atlantic trade on industry production lies in producing countries achieving specialization in products in which they possess competitive advantages. Their study adds, "the general conclusion we draw from all the evidence of the study is that the Canadian

pulp and paper industry could compete in domestic and export markets under conditions of free trade, provided its production and marketing were reorganized and related public policies were conducive. Restructuring the industry would imply greater product specialization by companies and much larger runs on wider and faster machines in the present tariff-protected sector".

The findings of another study made by the Economist Intelligence Unit (EIU) [10] of the effects on British manufacturing industry of a free trade area and the Common Market, were useful as a background to this study. Undertaken in 1957, the EIU study anticipated what it would be like for British industry joining a free trade area (EFTA or the EEC). It stated, among other things, "Competition in an EFTA and in the CM is likely to promote an increase in the average size of firms and in the scale of production, chiefly in mass production industries but also in others where there are at present - and for no good reason - an unusually high proportion of small undertakings. Britain's big firms have more than a head start in the race against all save German competitors in general, and a handful of very big firms in other countries".

On the other hand, there is growing awareness in the UK of a conflict between the size of firms and competition,[11] i.e. the size of the UK market is such that in many industries the number of firms of minimum optimal size which the market could support is not large enough to ensure effective competition. The importance of this conflict is found in the fact that, for the free markets, competition has been relied upon to force the economy to achieve certain objectives which are desired by society. One of these objectives is high productivity in the production of a given set of outputs. That is, with a given capital stock, a given technology,

and a given set of resource prices, firms should be producing goods and services with a minimum expenditure of the economy's resources. A free market operates with the assumption that there will be many firms selling the same product. The number of firms is large enough to eliminate collusion on price, and at the same time the number of consumers is so large that they cannot collude to force a reduction in the market price. Any profits above the normal level that the firm may command are passed on to consumers in the form of lower prices by the pressures exerted from other resources entering the market. The exit of resources when price is "too low" functions as a control to protect society from the waste of resources. The market, an objective and neutral force, contains the power in the above relationship. How British manufacturing industries would react in an enlarged market which is governed by the broad concept of a free market and reinforced by a set of directives and regulations agreed upon by the EEC Commission, is a question which seeks an answer. The study in hand is an attempt to contribute to the answer of such a question.

If we turn to world trade and its effect on British industry, it is self-evident that British industry and Britain's prosperity in the future, as in the past, depends on her success in exporting her manufactured goods. Not only do exports enable essential imports to be bought, but they also make it possible to reap the benefits of the economics of large-scale production and of the international division of labour. These advantages can be shown, from theoretical consideration, to be greatest when the obstacles to free trade are minimized and when there are no currency restrictions. The relation between the dismantling of tariffs, henceforth the reshaping of trade, and x-efficiency has been discussed by W. M. Corden [12]. His analysis supports the argument that tariffs reduce x-efficiency. The implication of that is as follows:

Firstly

The income distribution of a tariff affects the whole of an industry, even when the output changes resulting from the tariffs changes are only marginal.

Secondly

A positive effective tariff may no longer lead to an increase in the output of the protected industry, and indeed, paradoxically, its output may fall. The rise in tariff may have led to a decrease in the input of the managerial factor, measured in efficiency units.

It is the effect of greater market size in reducing waste by stimulating competition and the effect of free access to more rapidly growing markets in aiding the expansion of the competent at the expense of the incompetent. How British industry thinks, plans and reacts accordingly, is the aim our study is trying to fulfil.

So we can conclude that the aim of the study is to assess the performance and attitude of some selected British manufacturing industries, as an illustration of the would-be reaction of British firms, in relation to a major expansion of their potential market, namely the EEC market. It is an attempt to illustrate the effect of that extended market, drawn from the experience of selective industries after the UK accession to the EEC.

The method to be used and the projected approach in so doing will be discussed in Chapter II.

CHAPTER II

METHODS AND LIMITATIONS

In this chapter we will consider the method appropriate to the study in hand. This is the logical outcome of the scope of the research as discussed in Chapter I.

Before so doing this is the suitable place to consider some of the other methods used in similar studies.

Despite the huge difficulties of measuring integration effects, both organisations and economists, nevertheless, have been led to attempt the task because of the emergence of the EEC and EFTA.

The scope of the effect of integration could involve analysis of:

(a) The effect of integration on the trade of the member countries in the integrated area, with all the accumulative effects on GNP, balance of payment, aggregate demand and consumption, exchange rates, and employment.

(b) Then one could go further in the analysis to investigate the effect of integration on the trade of industries. That is by measuring the effect on the trade of each industry sector and hence investigating the reasons that were the cause of trade increase; either as trade creation or trade diversion; or indeed those reasons that were behind a trade deficit. Forces that lead to either of the above results involve the internal structure, resources and operations of an industry in a member country and/or the external economic environment that influence its competitive position. That is in comparison to their counterpart in the integrated area.

(c) Another dimension for measuring the effect of integration is the investigation at the manufacture level. This would share a great deal of the factors analysed in the above investigation, but would go down to the details that affect the performance and the competitive position of the individual manufacture. Examples of those related affective factors are organisational structure, application of the latest technology in the industry, forms of economies of scale and efficiency and special quality and standard attached to the product.

Each of the above investigations would require a different approach of analysis and would ask for a special method to carry it out. In the meantime it is difficult to isolate the effects and the results of each investigation from the other as most of the effective factors in each are inter-related, and here lies a major limitation to any approach that does not take account of the other. That is beside the limitation that is related to the methodology of each approach.

Hence we will review, in the pages to come, the would-be method(s) of each of the three mentioned investigations and the limitations attached to each.

(A) Methods and limitations of investigating the effect of integration on the trade of a member state(s)

A comprehensive argument in that regard was done by Victoria Curzon[13] when she drew lessons of EFTA experience in her work for the Trade Policy Research Centre. For that, she referred to the following studies.

A Study by EFTA Secretariat[14] can claim to be original in its own right, although it owes a debt to earlier studies, each of which represents a step in the process by which the particular model was developed.

In 1967 the GATT Secretariat[15] published a study of the import trends in both EFTA and the EEC covering two periods, 1955-60 and 1960-65.

Noting that the income elasticity of demand for imports in both groupings appeared to have remained constant from 1952 to 1966, GATT explained that although imports in EEC and EFTA grew about twice as fast as the GNP, the ratio between the annual growth rates of imports and of GNP statistics at constant 1952-1954 prices suggested, however, that no such increase in the propensity to trade had occurred. The GATT Secretariat drew the conclusion that no trade creation appeared to have taken place and decided to concentrate their attention on trade diversion. In order to measure this unknown quantity, and here we are concerned about the method adopted, GATT conducted a statistical examination of the extent to which European imports had shifted from third countries to the two regional groups.

Some one hundred commodity groups were taken into account, but non-European products (principally tropical goods and certain minerals) were excluded from the study.

In order to cope with the familiar problem of how much to attribute to integration and how much to other intervening variables when examining distortions in the pattern of trade, the GATT study attempted to account for two possible variables besides integration:

(a) "Relative importance of markets"; and

(b) "Commodity composition", calling a third element,

(c) "Residual deviation"; this last contained the integration effect.

The first element, relative importance of markets, attempted to account for the fact that third countries exporting initially a large part of their exports to rapidly growing markets, such as West Germany, would be expected to maintain their existing volumes to stagnant or declining markets in the aggregate. On analysis this element turned out to be of very minor importance.

The second element, commodity composition, attempted to account for a similar phenomenon, the fact that third countries exporting primary products to Europe would, in any case, have suffered a relative loss of overall market shares by comparison with third countries exporting primarily manufactured goods, for which demand would have remained relatively buoyant. As the above study concluded, this element accounted for between 25 and 50 per cent of total deviations in the EEC from 1960 to 1965, and for between 20 and 25 per cent of total deviations in EFTA.

The third element, residual deviation, was defined as "the positive or negative changes in the share of an exporting area in the market of a regional grouping due to the operation of factors other than the first two elements. It included the effect of regional integration on the pattern of trade but also included other unknown factors, such as alterations in trade flows due to changes in an exporting area's competitive position due to technological change, growth, natural resource discoveries, etc. and other long-term, underlying trends.

"Residual deviation" was calculated on the assumption that shares in European import markets would have remained unchanged from 1955 to 1960 and from 1960 to 1965 if none of the three measured variables had distorted the picture. GATT warns the reader that its "residual deveiations" do not constitute a measurement of "trade deviation", but points out that the creation of regional groups does not appear to have modified the income elasticity of demand for imports.

In short, the GATT study, limited to examining shifts in the sources of European imports, suggests that if the EEC and EFTA have had trade diverting effects, they have occurred mainly in intra-European trade flows and third countries have suffered comparatively little. The tentative suggestion made by the GATT Secretariat, to the effect that since the statistics do not indicate the presence of trade creation, the "residual deviation" figures may be an approximation of trade diversion, is an hypothesis which is not wholly confirmed by the Balassa and EFTA studies explained below. Both these studies suggest that trade creation has taken place, and the second EFTA study suggests that trade creation has outweighed trade diversion.

While the GATT Secretariat attempted to account for two intervening variables in order to achieve reasonably sophisticated results in its measurement of changes in Europe's pattern of trade, Professor Balassa[16] compared changes in income elasticities of import in intra- and extra-EEC trade before and after integration, assuming that income elasticities would have remained unchanged in the absence of integration. The GATT study, as we saw, drew attention to the fact that overall average import elasticities had not changed significantly in the EEC and EFTA, but Bela Balassa noted that "consideration of total exports and imports has only limited interest, since aggregate results may conceal changes in opposite directions with respect to individual commodities and commodity groups".

Professor Balassa distinguished between seven product groups based on the Standard International Trade Classification (SITC) and related real import growth rates for two periods (1953-59 and 1959-65) to real rates of growth in GNP. The findings were deflated according to the appropriate import-price indices for individual countries. Balassa interpreted his results as follows: "A rise in the income elasticity of demand for intra-area imports is evidence of gross trade creation (that is, trade creation plus trade diversion), an increase in the elasticity of demand for imports from all sources of supply becomes evidence of trade creation proper, and a fall in the income elasticity of demand for extra-area imports suggests the existence of trade diversion".

Professor Balassa found that the income elasticity of demand for intra-EEC imports rose from 2.4 to 2.8 between his two reference periods (this was gross trade creation composed of both trade creation plus trade diversion). In the meantime, the EEC's elasticity of demand for imports

from third countries (which ought to have shown trade diverting tendencies) actually rose one point from 1.6 to 1.7, instead of declining as one would have expected. Finally, the EEC's elasticity of demand for imports from both intra- and extra-area sources rose three points from 1.8 to 2.1, suggesting the existence of trade creation.

GATT, noting that although the EEC and EFTA imports tended to grow about twice as fast as GNP, their elasticity of demand for imports had not risen "substantially" from 1952 to 1966 and concluded that little or no trade creation had taken place. Balassa, on the other hand, concluded that since the EEC had experienced a small but observable increase in its elasticity of demand for aggregate imports, there was no indication of trade diversion.

Upon disaggregation, however, Balassa's findings suggested that diversion had, in fact, occurred in some product groups, but that it had been more than compensated for by changes in the opposite direction in fuel, machinery and transport equipment. This increase in third country trade appears to have been due to what GATT called "commodity composition", namely, the demand for certain products, such as liquid fuels, machinery and investment goods, rises faster in relation to GNP than demand for goods less intimately linked to industrial growth and investment.

Taking machinery alone, a GATT study[17] has shown that world trade in engineering products has been the most rapidly growing sector of world production and trade. Furthermore, this long-term acceleration

of international exchanges can, in great part, be attributed to increased specialization among industrialized countries, when certain equipment can be obtained only from one or two countries; factors such as tariffs or tariff discrimination as a result of integration will not noticeably affect trade patterns. Even when capital equipment is fairly standard, if it entails heavy expenditure there will be some important elementsbesides price alone which will determine the choice of a source of supply, such as delivery dates, credit terms and after-sales services. Indeed, the presence or absence of tariffs and discrimination does not seem to have affected the bulk of the most rapidly growing sector of world trade - that is, engineering products under headings 71 and 72 of the SITC. Only 9% of this trade is composed of consumer goods; capital equipment accounts for the remainder, which helps to explain why the EEC's elasticity of demand for third-country imports of this type should have risen after integration from 0.9 to 2.5.

Thus at least part of the increase in the EEC's overall income elasticity of demand for imports has been due to factors which may have been independent of integration. But, besides the commodity composition factor mentioned above, there were also some important changes in the environment taking place alongside the formation of the EEC and EFTA, namely, the progressive elimination of quantitative restrictions to trade through the 1950s, the return to convertibility at the end of 1955, the end of dollar discrimination and the tariff cuts made after the Dillon Round in 1960.

Although those various changes have undoubtedly contributed to increasing Europe's overall elasticity of demand for imports from 1960 onwards, it is nevertheless safe to assume that integration, both in the

EEC and EFTA, worked in the same direction. It is therefore possible to discount the exceptional results of Balassa's findings with respect to third-country trade (indicating no trade diversion) as being caused by forces stronger than those of discrimination, while the positive results for total EEC trade, indicating trade creation, must be deflated by a certain amount. It is not possible, however, to estimate the amount by which Balassa's findings should be adjusted; all one can do is to keep in mind that some adjustment is necessary and that the entire change in income elasticities of demand for imports in Europe cannot be attributed to integration alone.

If this limitation is kept in mind, Bela Balassa's method provides a rough guide to trade creation and diversion in an integration area.

Another interesting method, of a high academic order, which deserves careful appreciation is derived from the study by EFTA Secretariat(*) undertaken according to EFTA's Ministerial Council decision in May 1966. The Council decided that the EFTA Secretariat should "review and analyse the effects of the divergence between the two European trading groups (EEC and EFTA) and assess the waste of existing and potential resources involved in this division of Europe". The findings of this investigation are published in two parts.

The EFTA studies begin by comparing real and hypothetical trade flows, the latter being calculated on the assumption that trends observed in a previous time sequence would have continued unchanged in a subsequent period, had it not been for the impulse away from trend given by the

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(*) Op. cit. Ref. No. 6.

variable under observation (in this case, EFTA). The difference between the hypothetical result and the observed result is thus the "integration effect". This method is one of the most commonly used to assess the gross effect of integration on trade flows. It would also be possible to calculate hypothetical trade flows within the same time-sequence as the real ones with which they are to be compared, provided one can find a "typical" and undistorted trade flow as a basis for comparison. It is, however, difficult to use this latter method with respect to the EEC and EFTA since all European trade flows have been distorted one way or another (and at the same time) by integration effects, and one cannot use the trading behaviour of non-European developed market economies (like Canada, Japan or the U.S.) as a standard by which to measure trade distortions in Europe. One could also, at a very low level of sophistication, merely compare changes in real trade flows between two periods, but this method would not permit one to distinguish the underlying trend from the exogenously determined impulse being considered.

The EFTA Secretariat therefore calculated the "EFTA effect" by assuming that, in the absence of EFTA membership, supply pattern for a given commodity (both imports and domestic production) would have developed from 1959 to 1965 in the same way as it had from 1954 to 1959. The difference between this hypothetical figure for imports and actual imports in 1965 is termed the "EFTA effect", which includes both trade creation and trade diversion. The result is conceptually similar to Balassa's "competitive effect" and GATT's "residual deviation", although the methods of calculation are different in all these cases. The EFTA studies in particular, include trends in domestic production, a refinement not attempted by either of the other two studies. On the

other hand, it does not attempt to account for measurable variables like the "relative importance of markets" or "commodity composition", as the GATT study did.

The originality of the EFTA model lies in the fact that three basic variables in the national markets are taken into account, namely:

(a) imports from EFTA,

(b) imports from third countries, and

(c) domestic production consumed at home.

These three variables, added together, constitute apparent consumption, and they are calculated for thirty six commodities, in order to produce the hypothetical orders of magnitude described in the preceding paragraph. Real figures are then amassed for the same variables, and the difference between them becomes the "EFTA effect" by applying Balassa's conceptual framework to the figures at hand.

Thus, if the share of EFTA imports in consumption is above trend while that of domestic production is below, with that of third countries remaining equal, one assumes the existence of trade creation. Conversely, if the share of EFTA imports is above trend, while that of third countries below, one assumes trade diversion to be present. There are, indeed, other logical variations on this theme, most of which are unlikely (for instance, third country trade and domestic production are above trend, with EFTA imports below, or all are below trend, or all above) and of no help in separating trade creation from trade diversion.

The first two cases, however, do give unambiguous and separate results for trade creation and trade diversion, also distinguishing between trade diversion and trade creation even though they occur simultaneously for the same product.

The EFTA model is based upon two realistic assumptions. First, it is assumed that a high tariff denotes relatively high domestic production costs, and secondly, since all foreign sources of supply are subject to the same tariff before integration, the pattern of supply in the pre-integration period will reflect the relative costs of production in foreign countries.

The computed results for the difference between actual and hypothetical imports from EFTA and non-EFTA sources were only the starting-point for the estimates of the overall effect of EFTA on trade.

(a) First, there were a number of bizarre results which could not be interpreted either way, and which were ignored in the global calculations.

(b) Secondly, in cases where tariffs were zero or near zero, it was assumed that the impact of EFTA was likely to have been negligible and any positive results given by the initial calculations were rejected; and finally

(c) the EFTA Secretariat had a unique opportunity to hold discussions with government officials, representatives of industry and other informed parties, as a result of which we quote, "a number of special factors that were discovered and which have influenced EFTA

trade so that the original computed results do not always realistically reflect the influence of EFTA". The information obtained in this way, it is claimed, we quote, "was usually sufficient to make it possible to avoid considerable errors of interpretation".

The fact that the EFTA studies take the tariff factor into consideration, as well as random but important information such as the discovery of new techniques, the opening of new factories, the activities of firms controlled from outside EFTA, the availability of trade credit and so forth, lends much credence to the results.

However, as the Secretariat itself points out, "it is of course quite impossible to claim a high degree of accuracy for the estimates of EFTA effect arrived at".

(B) Method(s) and limitations of investigating the effect of integration on the industry level

If we focus on the methods used to measure the effect of integration on trade in the industry level, as the logical following step to those methods just reviewed in relation to the country level, we found that the work done by Han and Liesner(*) is the most interesting in that regard. They attempt to tackle the question, which British industries (producers) are likely to be favourably affected by Britain's entry into the European Economic Community, in the sense that output in some industries will be higher than it would otherwise have been, whilst for others the outlook would be adverse.

The main tools, in their research, are an analysis of the comparative foreign trade perforances of British and EEC manufacturing. They listed 230 commodities with two rank orders, items placed towards the top end of their list are goods in which, on the evidence of past trade performance, the UK's competitive position relative to the EEC's is strong, whilst items at the lower end of the rank order are commodities in which the UK's past record, again in relation to that of the EEC countries, is poor.

Their basic hypothesis is that the pattern of trade, prior to the abolition of tariffs and of other trade barriers provides an indication of underlying comparative cost conditions, which in turn would be one of the determinants of the pattern of trade and hence of domestic production after the enlargement of the Common Market.

(*) Op. cit. Ref. No. 4.

Their assumptions, therefore, are built upon two main factors:

(a) The kind of rank order they draw up does constitute a reflection of comparative cost condition, on the one hand, and

(b) on the other hand, the relationship between relative trade performances underlying comparative cost condition.

The main criticism for both assumptions are as follows:

First: Commodities rank order

The ultimate aim of a research such as theirs (and the present one) is to seek the effects of UK accession to the EEC upon British manufacturing industry, and that the need to compare their performance with that of the no-entry case, with reference to this objective, a comparative cost rank order did not get them far, because a number of other determinants are also involved in a major way, as Han and Leisner argue(*):

"(a) in order to establish such a relationship, one should go beyond an examination of comparative cost, and to take into account the proportions of both the British and the EEC market whichbefore British entry are supplied by UK, EEC and third country producers respectively, and to do so we require the following data:

- Trade between the UK and the EEC.
- Imports from third countries

(*) op. cit. pp. 18-20.

- domestic UK and EEC output for the home market.

The third factor presents very considerable statistical difficulties especially regarding the limited resources concerned.

(b) The extent to which a particular British or EEC industry can expect to raise exports to a partner above what they would otherwise have been, will also depend on the reaction of local and third country producers to the relative cheapening of British commodity brought about by the tariff reduction, they may adjust their terms in order to meet the new competition, or alternatively prefer to switch resources into other activities. This is a problem which could not be handled satisfactorily as a part of statistical analysis and without intimate knowledge of the products and markets involved.

(c) The third point concerns the balance of payments implications of the increase in trade flows. Additional UK exports of the goods in which the UK is reasonably competitive would in themselves tend to improve the UK trade balance (and worsen the EEC's), whilst the growth of imports of goods placed towards the lower end of the rank order would worsen the British payment position.

The differences between the increases in exports and imports must accord with whatever balance of trade on manufactures as a whole, would be compatible with the requirement that both the UK's and the EEC's overall balance of payments (vis-a-vis all countries) would be in equilibrium. If this is not fulfilled, the effects of a general price adjustment would have to be considered.

A relative fall in UK prices should bring about an additional expansion of exports and a reduction in imports relative to the initial increase; a rise of UK prices would have the opposite effect. Changes in relative prices would also affect UK and EEC sales to, and purchases from, third markets, and these would have to be brought into the picture as they clearly influence both partners' balance of payments position."

Han and Liesner summed it up:

"In general the relationship between a commodity's position on the rank order and the direction of the EEC effect is best regarded as a matter of probability rather than of certainty ..."

Second: Foreign trade performances as indications of comparative cost conditions

Turning to the other issue which Han and Liesner depend upon when building the method they adopted, it is sufficient to summarise the points they raised against considering it as a reliable indication of comparative cost condition(*):

(a) Foreign trade comparisons relate to a past period and therefore cannot take into account the influence of changes in the circumstances of particular industries in the period - which may be quite a lengthy one - before trade barriers are abolished. These charges can come from the demand or the supply side, or result from government policy.

(*) Op. cit. pp. 20-21.

(b) They disregard relationships of complementary products as they treated all traded products as independent of one another.

(c) They found a good deal of circumstantial evidence to suggest that exporters whose domestic markets are protected by tariff barriers practise price discrimination, as a result their foreign trade performances may be rather better than their relative competitive standing would normally permit, so conclusions drawn from the foreign trade data may therefore be misleading.

(d) The influence of institutional factors other than tariffs (differential tax systems, preferential government procurement policies and the operation of monopolies) serve to distort trade patterns.

(d) The position the UK enjoyed regarding third partner (country) that would have access to the Community, henceforth put Britain in the same advantageous position with the rest of the Community in relation to certain commodity.

These were the methods and limitations that are related to an investigation, as such, at the industry(ies) level.

(C) Methods and limitations of carrying out the investigation at manufacture level:

This method would depend on asking industrialists how they expect the changes in trade barriers to affect their trade both in the home market and in the markets of their partner countries; together with other questions and forecasts(*) that are relevant to changes as such.

The problems that face the above investigation, have been revealed by Han and Liesner(**) as the difficulties faced by industrialists to make forecasts for conditions with which they are not familiar.(***) Moreover there is the difficulty of obtaining a reasonably consistent set of answers. In proving this point they referred to the same problems that had been associated with the Industrial Enquiry conducted in connection with Britain's 1965 National Plan. However, they were in favour of a method as such because:

(a) People in charge of industry are in possession of a great deal of relevant information that is not contained in any statistical series and it is assumed that a properly conducted enquiry should unearth some of this evidence.

(b) The problems could be overcome by detailed questionnaires backed by intensive interviewing.

(*) e.g. effects on marketing policies, organisational structure and investment programmes.

(**) Op. cit. Ref. No. 4.

(***) Han and Liesner are referring here to pre-entry survey.

The Method chosen for the Study in hand

We discussed above the would be methods, together with the limitations attached to it, for investigating the effect of joining a custom union on different levels of activities; either those connected with the member countries' trade, trade in products or group of products that belong to different industries, and finally those that are used for investigating the effect on the trade of individual manufacturers. Indeed it is the proper consequence to reveal the method adopted by the study in hand.

As each of the three mentioned methods serves to reach certain results and to explore specific effects, it is inescapable that they are inter-related; and that the accumulative effects of the trade increase in a specific sector affect that in the others. Hence, the appropriate method would be that that takes account of all those methods mentioned above. This not only ensures reaching a comprehensive conclusion, but also offsets some limitations in one method that is compensated by the possibility of a detailed analysis and the data that is available in the other.

Therefore the method used in this study rests in the following:

(a) In order to cover the effects of Britain's membership on trade with her partners on the one hand, and on her overall trade performance on the other hand, we depend on the published overseas trade statistics. The analyses of their likely effects are discussed in Chapter VII.

(b) Again analysis of trade in manufactured products, divided by industry sectors, is conducted in Chapter VII. The model that will be used and the way the analysis is directed, will be discussed in the above Chapter.

(c) The backbone of this study is the investigation to be carried out at the firm (the manufacture) level. That is in order to examine what industrialists expect of Britain's membership in terms of increased trade, plans, and policies. Then to back it with an intensive interview with a representative sample of British firms (manufactures), to enquire into what has happened to their expectations and to assess their attitudes towards, and their performances in an extended market as such.

This is to be conducted in two stages, the first is in the preliminary survey; the questionnaire; in Chapter IV, the second is in the main survey; the case studies; in Chapters V and VI. In these chapters we will indicate how we will conduct the above surveys, together with the methods and approaches of analysing the data that could be obtained.

(d) Finally, Britain's economic performance is the surrounding environment to all the above methods and analysis; that affects and would be affected by the results obtained from any of the above approaches. Therefore, we will relate, as appropriate, the former to the latter.

CHAPTER III

LITERATURE SURVEY

3.1 Industrial Policy in the European Economic Community (EEC)(*)

Throughout the industrial world governments have been increasingly exercising responsibilities for full employment, economic growth, regional development and industrial organization in ways that would or do already, impose obstacles to trade with other countries. Yet they are committed, through adherence to the GATT and participation in the OECD, and in Western Europe through their membership of either the European Community or EFTA, to the reduction or elimination of barriers to trade, and they are also committed to the avoidance of policies which have a similar distorting effect. In this last respect, the relevant provisions in the European Community are articles 92 to 94 of the Treaty of Rome, dealing with government aids to industry. Two major factors have produced the apparent conflict in objectives between domestic and international economic policies.

(a) On the one hand there has been growing pressure on governments to assume greater responsibilities towards the social and economic welfare of their peoples.

(b) On the other, governments have failed to devise and implement adequate means for the adjustment of disequilibria in international trade and payments, until the forces of international currency markets obliged them to accept floating exchange rates as a fact of current life.

Governments appear to have been confronted with a choice between modifying the objectives of domestic policies or modifying their commitment to liberal

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(*) This and the subsequent topic are reviews and quotations from the relevant references that are indicated constantly as the discussion goes on.

trade. In practice, they have sought to reconcile the two courses, but domestic pressures are usually the first to tell, especially where there is no strong sense of international obligation.

Domestic pressures are invariably short-sighted, inward-looking and defensive. Ministers, being dependent on electoral support, are more likely to be influenced by such pressures, generated perhaps by the specific plight of a local industry unable to cope with import competition than by the general damage that might be done in the long run to the international trading community.(18)

The reduction of tariffs on trade among developed countries in general and the elimination of them in the European community and EFTA in particular has exposed the significance of non-tariff distortions of international competition. By these last are meant a wide variety of measures which either by design or accident protect or favour domestic producers viz-a-viz foreign suppliers.

At the expense, incidentally, of domestic consumers and taxpayers, they include measures taken by private enterprises, referred to generally as 'restrictive business practices'. But non-tariff distortions are mostly public policies and practices. Many of them are measures implemented at the border by customs authorities, namely quantative import restrictions (of concern mainly to developing countries), tariff quotas, anti-dumping duties, customs valuation procedures and so on. The non-tariff measures which appear to cause deepest concern among developed countries, however, are those which are instruments of industrial policy - and are instruments also of other policies. An industrial policy should embrace a number of inter-related objectives

relating to the pre-planned allocation of resources, the structural organization of industries, the development of technological innovation and the maintenance of regional balance. Among its instruments are government loans and subsidies, public procurement policies, technical standards and specifications, concessionary charges for public services and preferential tax treatment.(19)

For all intents and purposes, industrial policy in the European Community remains the prerogative of national governments, which greatly complicates the position of the Community in international negotiations on non-tariff barriers to trade. In fact, the Treaty of Rome does not envisage a common industrial policy in specific terms, but articles 92 to 94 of the Treaty of Rome prohibit government aids which interfere with trade among the member countries. These provisions do allow, though, for exceptions in certain circumstances, most notably where there is regional unemployment.

With the close inter-relationship between regional and international policies, it would be as well to clarify the distinction between the two. The former relates to public assistance which the producers of a particular region may obtain, no matter what they produce. On the other hand, the latter relates to public assistance which may be obtained by producers of a particular line of product, wherever on a country they may be located.

The common industrial policy of the European Community is still very much in embryo. In 1970 the Commission advanced proposals in the Colonna Memorandum.(20) But it was not until the 1972 meeting of heads of member governments that guidelines were approved.(21) The elements

stressed in the communique of the Paris summit, although published in different order, call for:

(a) The maintenance of fair competition as much with in the Common Market as in external markets in conformity with the rules laid down by the treaties.

(b) The elimination of technical barriers to trade.

(c) The progressive and effective opening of purchasing by the public sector.

(d) The transformation and conversion of declining industries under acceptable social conditions.

(e) The promotion on a European scale of competitive firms in the field of high technology.

(f) The elimination, particularly in the fiscal and legal fields, of barriers which hinder closer relations and mergers between firms.

(g) The rapid adoption of a European company statute, and

(h) The formation of measures to ensure that mergers affecting firms established in the European Community are in harmony with the economic and social aims of the community.

Conformity with Conditions of Free Trade

Much depends, for a start, on what is meant by 'fair competition'. There is an obsessive and unfounded belief in some quarters that for free trade to be effective it is necessary for all conditions of competition to be equalized, implying that all locational differences in costs of production and distribution are somehow distorting. But no division of labour through trade can take place if all competitive conditions are artificially equalized. For trade between countries is primarily based on cost differences. There is a wide gulf conceptually between

(a) eliminating distortions to competitive conditions resulting from government interventions, which would come under the heading of one non-tariff measure or another, and

(b) eliminating differences in competitive conditions resulting from differences in taxation, social benefits and company laws.

The first is necessary in any attempt to liberalize trade, on either a regional or a multilateral basis, and can be pursued effectively by inter-government means. The second, however, is not necessary to liberalization of trade, but if an economic union is conceived an effective degree of supernational authority is essential.

Non-Tariff Interventions

Within the first group of measures, however, fall the second and third elements in the framework of a common industrial policy. Both the elimination of technical barriers to trade and elimination of discrimination

against suppliers in other member countries in the business of public purchasing could be supported as steps towards the elimination of competitive distortions that result from non-tariff interventions by governments.[21a] They would be in line with the principle established in the Treaty of Rome - prohibiting government aids which interfere with trade, except for purposes of regional development.

But these principles are only supportable if their implementation is accompanied, as envisaged in the Paris Communique, by corresponding efforts on the part of member governments of the European Community to negotiate multilateral agreements with third countries on the elimination of the discriminatory aspects of technical standards and specifications,[22] public procurement policies and government subsidies.[23] Discrimination against the rest of the world cannot be approved as basis of a common industrial policy.[24]

For economic, political and strategic reasons the European Community is in no position to invite the antagonism, either of the United States or of other countries, that could be expected to ensue.[25] As diplomatic efforts proceed in the Tokyo Round of Multilateral Trade negotiations, the European Community has a strong interest in the early establishment of a framework of international obligations with respect to non-tariff interventions, within which it could finalize a common industrial policy. The force of international obligations - undertaken in response to the threat to international economic order occasioned by worldwide inflation, commodity shortages and the energy crisis - might in any case facilitate the implementation of a common industrial policy. For intergovernmental action on non-tariff measures, whether on the European Community or in a wider context, is bound to exacerbate the sensitive issue of national

sovereignty, such is the growing interdependence of the nation states. Negotiations on non-tariff interventions are difficult in a global context - as they can be expected to be in the Community when it comes to formulating a common industrial policy - precisely because they impinge on national industrial policies. But then tariffs, too, are instruments of public assistant to industry. After all, in domestic terms commercial policies are also concerned with the industrial structure of countries, while internationally they are concerned with the location of production where there are comparative cost advantages.

Adjustment assistance to declining industries

This leads to a consideration of the issues posed by the fourth element: 'the transformation and conversion of declining industries under acceptable social conditions'. The purpose of the trade liberalization is to bring about a more efficient allocation of resources, both domestically and internationally, through greater specialisation on particular industries or on particular product lines within industries. Adjustments to changing market conditions, on the demand side and on the supply side, is a normal and continuous process in market economies. It mainly takes place without the assistance of governments. But in circumstances governments intervene either (i) to help industries adjust, or (ii) to alleviate the social consequences of adjustments.(26) Now that tariffs have been eliminated and non-tariff measures are being considered in GATT negotiations, it is crucial that governments should place more emphasis on adjustment assistance. Indeed, there is almost an international consensus, reflected in numerous reports, on the need for adjustment assistance to be an integral part of 'escape clause' or emergency protection against sudden surges of imports.(27) As the European Community -

along with other industrilaised countries - comes under increasing pressure to accord greater market access to the products of developing countries, reinforcing the dynamic effects of internal liberalization, member governments should develop a more concerned approach to the provision of adjustment assistance to declining industries to compete in the face of growing imports or other changes in their business environment.

In developing a coherent policy towards declining industries, a clear distinction should be drawn between 'fair' adjustment assistance, on the one hand, and 'unfair' government aids on the other.(28)

(a) The appropriate form of adjustment assistance in a market economy aims to shift resources out of industries that are no longer competitive. There are occasions, of course, where such industries can be revitalised by the replacement of inefficient management, by the introduction of modern technological know-how and by the injection of fresh capital.

(b) The inappropriate form of government aid, which is merely a substitute for traditional forms of protection, aims to keep resources in an industry, through the provision of subsidies, capital expenditures, subsidised research and development and subsidised skills.

Promotion of High Technology

To date the attempts of the European Community to devise a common industrial policy have mainly been for the purpose of enabling European industry to develop technologically advanced capacities that are able to withstand American and Japanese competition. Therefore again, the

fifth and sixth elements of the policy framework, as agreed at the Paris summit, have to be discussed in an international context. Technological innovation and the introduction of new technologies play an important role in the economic growth of nations. As a result, policies bearing on science and technology have become an important aspect of international economic relations, influencing both visible and invisible trade as well as foreign investment.

Since World War II, almost all economies of Western Europe have enjoyed much more rapid growth than the economies of North America. To a large extent, this dynamism derived from the ability of Western Europe to imitate technological advances made in the United States - to exploit what has been rather loosely called 'the technological gap'. In the late 1960s, however, this particular source of growth had also become a source of friction between the European Community and the United States.

Technological Gap and other differences

Public opinion in the European Community has been subjected to a stream of dire prediction of a future dominated by American research and development, by American computer and automation techniques, by superior and continuously improving American managerial skills and, too, by the marketing strategies of multinational enterprises. Such organisational capacity, so the argument has run, would ensure for the United States the commanding heights of modern technology and reduce the European Community to the permanent status of an industrial satellite.(29)

These predictions, widely purveyed by an uncritical press, might have been convincing if at the same time fears were not being expressed in the United States about the congenital inability of industries there to compete with the re-born industries of Western Europe and Japan. For many American commentators were predicting that the vast research-and-development effort of the United States would be cancelled by the acceleration in the international diffusion of technological innovation via direct investments which eventually might result in American firms being displaced in their home market.(30)

Promotion of European companies

Another part of the trend has been the role of multi-national enterprises as agencies for the international transfer of capital, technology and managerial skill. The European Community could accordingly facilitate the development of technological innovation in the private sector by removing fiscal and legal barriers to closer relations and mergers between firms to form 'European companies'.(31) This could be assisted by the adoption of a European statute, the seventh element of the Paris communique.

Differences in company laws and differences in corporate taxes pose serious problems for the establishment, transfer and merging of companies. Head offices cannot be transferred from one country to another without changing their juridicial status. Branches and subsidiaries cannot be established in another member country without being subject to national laws that differ from those applying to their parent companies at home.

Companies located in different member countries that are interested in integrating their operations are thus obliged to resort to a variety of legal forms which, in the major and majority of cases, have not yet resulted in rationalisations of production. Most of the mergers that took place after the formation of the European Community were therefore between firms of the same member country, rather than between firms in different member countries , although there were many mergers between member-country firms and foreign companies. Cooperation agreements were far more numerous than mergers. (See Table III-1).

The establishment of subsidiaries was also on a substantial scale, but again cases involving third countries far outnumbered those involving different member countries.

The main fiscal obstacles to transnational mergers and to the establishment of subsidiaries in other member countries have included capital gains taxes on unrealised profits at the time of any merger and the double taxation of the profits remitted by subsidiaries to the parent companies. The Commission has accordingly proposed that taxation of capital gains should be postponed until they are realised. And it has also proposed the application of uniform rules throughout the Community in order to eliminate the double taxation of remitted profits.(32)

TABLE III-1

Direct investments, cooperation agreements and mergers in the European Community, 1961-69

Establishment of subsidiaries	
by member-country firms	2,300
by third-country firms	3,546
Cooperation agreements	
between national firms	1,352
between member-country firms	1,001
between member-country and foreign firms	2,797
Mergers	
between national firms	1,861
between member-country firms	257
between member-country and foreign firms	820

Source: Bulletin of the European Communites, Commission of the European Community, Brussels, 1970. P. 30.

More generally, the Commission envisages the harmonisation of corporate and other taxes, in order to eliminate distortions in the allocation of resources. While this is regarded as a long-term objective, there have been proposals for greater uniformity in the direction of the so-called classic system of taxation, involving the separation of corporate and personal income taxes, which would remove distortions created by the tax credit system of France and Belgium and the split rate system of Germany.(33) On the double taxation of dividends, the Commission has

urged a generalised withholding tax in all member countries, replacing the network of bi-lateral double taxation agreements that are by no means uniform and in any case are often ineffective.

3.2 Industrial Policy in the U.K.

First Introduction

I Economic Performance in the U.K.

All economic policies in the UK, in the Macro Sense, have direct and significant effect on industry. Fiscal, monetary, and exchange rate policy are all major determinants of the level of demand that industry faces, its ability to earn profits, its investment plans, and its ability to finance them. The stability of demand, with its implications for long-range financial and investment planning, is also partly a function of the degree to which these policies are successfully applied. Prices and income policy can have a major effect on industrial labour costs, the availability of labour to particular firms, gross profit margins obtainable, and the continuity of production. Competition policy, planning, and nationalisation all represent policies which are directly concerned with the structure, behaviour, and performance of different sectors of industry.

With so many possible ways of influencing industry, both short term and long term at the government disposal, the need for a separate industrial policy was called for in Britain.

The policy towards industry has many aims, relating to efficiency, conditions of employment, remuneration, safety, etc. Here I focus on the overriding economic objective of recent years, namely, productivity.

Output per head of the working population is, and has been at a low level relative to that in most other industrialised countries, and in addition has

been growing at a slower rate as well. This is a serious problem for two reasons. Firstly, unless the proportion of population working rises sufficiently to offset it, a slow rate of increase in labour productivity implies a low rate of increase of material living standards for the population as a whole - in other words, slow economic per capita growth. Secondly it is very likely that most, if not all, the economic difficulties that have beset the UK in recent years can be attributed to this factor.

Low productivity must in nearly all circumstances result either in correspondingly low wages, or high prices or low gross profit, or, more usually some computation of these.

In practice, all three have occurred. Low wages are, of course, part of the means by which low productivity gets transmitted into low living standards, and many firms in the UK have only been able to remain internationally competitive despite significantly lower levels of productivity because they have paid much lower wages than abroad. Equally serious, low wages and low rates of increase in wages are thought by many to be one major cause of inflation through the resulting attempts of the workforce to obtain higher wage increases than can be absorbed through higher productivity. Thus the pressure of low productivity has been partly switched to prices. This has meant an inability to compete adequately in international markets, with a consequent slow growth of export demand, a falling share of the world trade, and a tendency to balance of payment deficit. Finally, to the extent that higher prices have not been able to take up all the pressure of wage increases in excess of productivity, gross profits (profits and interest payments) have fallen. This has tended to mean inadequate investment either because it curtails the supply of funds for investment or the incentive to invest, or both.

All this is not to say that other factors have not been important, but that low productivity has been a major and continuing factor in the generation of inflation, low investment, and balance of payment problems in the UK.

The problem did not stop there, however. A decline in export competitiveness meant that sterling became overvalued. To defend the exchange rate successive rounds of deflation of aggregate demand were required, and this further reduced investment by reducing the level of demand and increasing its instability. Low profitability led to an ever-growing incentive to invest abroad for both UK and foreign firms, thereby increasing the long term outflow of capital from the UK. The loss of foreign market share also directly operated to reduce investment in the UK. The low rate of investment implies that the average age of capital stock in the UK may tend to be higher than in most other industrialised countries and its productivity lower, further undermining export performance. In short, low productivity has caused or exacerbated almost all the economic problems faced in the UK, and in addition tends to magnify itself. A very large improvement in productivity is therefore an essential prerequisite if the UK economy and living standards are to improve, and the central role of industrial policy is to bring this about.

II. Alternative approaches to Industry

It is against this background that the need for an Industry policy over and above the Macro policies adopted by the government can be seen, for none of them has made sufficient impact, if any, on productivity performance. Monetary, fiscal and exchange rate policy have been primarily directed

towards managing the level of demand and improving the balance of payments with a given productivity level. Except for a relatively brief period when emphasis was placed on productivity bargaining, prices and incomes policy has been mainly concerned with direct control of inflation rather than with productivity improvements. The impact of these policies on productivity has, therefore, generally been a secondary concern or been ignored altogether because of the shorter-term problems to be dealt with. Longer-term growth and investment strategies of firms may have suffered as a result.

The same point cannot, however, be made with regard to the longer-term planning, and nationalisation policies. Each of these has been partly conceived of as a means by which productivity could be increased - anti-trust legislation by generating increased efficiency in the use of resources through the enhanced pressure of competition, planning through provision of a more stable background for investment and to advance identification of potential obstacles to faster growth of productivity, and nationalisation by allowing rationalisation of production and distribution facilities and the achievement of all the economies of scale inherent in the industries concerned. In practice, each has failed for different reasons to have the impact on productivity necessary to radically alter the performance of the UK economy. Planning has not had either the backing or the success necessary to contribute significantly to this aim as yet. The nationalised industries, despite having a rather better record of productivity than the private sector in recent years, have not, on average, achieved comparable levels with these industries in other countries, and, equally important, cover very little of the manufacturing sector. Yet this sector is vital partly because it appears to be a main determinant of overall productivity

and partly because it provides 80 per cent of the exports of the UK where high productivity is a crucial factor in overall performance.(34) The impact of the anti-trust legislation has been more complex. The restrictive Trade Practices Act of 1956, augmented by the 1968 Act, together with the abolition of resale price maintenance, is generally thought to have stimulated more competition in the UK initially - an effect which was reinforced by entry into the European Economic Community with its own anti-trust laws and the progressive removal of protective trade barriers which this has entailed. Yet the current phenomenon, almost certainly caused in part by the increase in competition, has been a wave of mergers. These in turn appear to have been the main cause of the increase in industrial concentration which occurred in recent years.(35) In practice, this has meant an increase in the number and extent of dominant market positions, thus at least mitigating and perhaps reversing the trend towards greater competitive pressure. The largest 100 firms were responsible for approximately 50 per cent of net manufacturing output in 1975 (as compared to 25 per cent in 1950, only 15 per cent in 1910, and a figure of 66 per cent forecast by the N.I.E.S.R. for 1985), and virtually all more comprehensive measures of industrial concentration in the UK support this trend. It remains to be seen whether increased international competition both from the EEC and from other countries currently industrialising will force higher productivity on UK industry.

Thus continuing poor productivity performance, together with the inappropriateness or inadequacy of the more well-established policies examined, have necessitated the development of other measures more directly aimed, if not exclusively so, at improving productivity. Before considering these alternative measures, which are far from representing

a comprehensive approach to industrial performance, it is useful to review the fundamental problem, namely the causes of the low level and the rate of growth of productivity in the UK.

III. Productivity in the UK

What are the causes of low productivity in the UK? Here we simply draw together the main reasons, largely following the Government's own interpretation of poor manufacturing performance presented as recently as November 1975 in a White Paper on Industrial Strategy.[36]

(a) Investment - a low level, poor choice, and inadequate utilisation.

(b) Labour - inefficient management, inadequate consultation, restrictive practices, overmanning, disputes, regional and sectoral shortages of skilled labour, opposition to labour mobility, and opposition to changes in relative pay and the relation of pay to productivity.

(c) Finance - inadequate provision to industry, especially over the medium and long term.

(d) Government - sharp and frequent changes of policy, excessive priority to public expenditure and personal consumption at the expense of resources for investment and exports, and intervention in the decisions of nationalised industries.

Even so, if there is one prime problem (low productivity) there is still relatively little agreement about what causes it. It is rather a number

of different reinforcing and self-amplifying factors, each of which has to be dealt with if performance is to be improved:[37]

(i) Drying up of the supply of skilled labour in adequate amounts, or with appropriate training to the manufacturing sector.

(ii) The very substantial shift in the distribution of GNP from marketed products to non-marketed ones (health, education and transport services), with the inevitable result that the growth of resources available for the production of marketed ones has been very slow.

(iii) The educational system, it is argued, has not met the need of the growth of productivity through its effects on management skills, the commercial applications of technology, and the degree of cooperation between management and market force.

Second: Previous Policy towards Industry

(i) Investment Incentives(*)

One of the major instruments used by successive governments to improve the performance of Industry in the UK has been the use of Investment Incentives. Firms are allowed to deduct from profit an amount to cover the depreciation of assets before taxable profits are arrived at. The most common method has been to deduct I/nth of the initial cost of the machine each year where n is the estimated number of years the machine

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(*) The line of arguments regarding investment incentives can be found in references (38), (39) and (40).

will last. In 1945 the Government introduced a system of initial allowances. This permits firms to accelerate depreciation for tax purposes. For example, a 40 per cent initial allowance allows firms to deduct 40 per cent of the cost of a machine in its first year, independent of its normal annual allowance in that year. However, the annual allowance in subsequent years must be reduced so that, as before, the total depreciation over the life of the machine is equal to its net cost. The effect is to reduce taxable profits in the first year but correspondingly increase them over the remaining years of the machine's life. Taxation is therefore to a certain extent defered.

In comparison with the previous system this therefore represented an automatic interest-free loan without security from the Inland Revenue. This entailed a net reduction in the cost to a firm of financing its operations and made more funds available than otherwise in the early stages of new equipment. This second effect was not immediate, however, because taxation is normally paid a year in arrears.

In 1954, Investment Allowances were introduced. These operated in the same manner except that no corresponding reduction in subsequent annual depreciation allowances was made. Thus, if the investment allowance was 30 per cent, the total depreciation allowance for tax purposes over the life of the machine was 130 per cent. Taxation was not only defered, therefore, butt reduced in total because the reduction in the first year was not matched by any increase in later years. In that firms were then being credited with expenditures which they had not in fact incurred this system involved an effective subsidy, and increased the overall expected post-tax profitability of investment.

One or other of these systems, and sometimes both together, have operated for much of the period since the war, the rates being, however, different in general on buildings as opposed to plant and machinery, and being varied over time (sometimes set at zero, thus effectively suspending operations). Increasingly, they were regarded as having several drawbacks. One, the delay in obtaining the benefits, has already been noted. In addition, firms had to make sufficient profit to have an initial tax bill larger than the value of the allowances before the full benefit could be obtained. Thirdly, the system or the rates were changed so frequently, on average more than once every three years, that it was both difficult and risky to take them into account in planning investment.

Partly as a result of these objections, and bearing in mind that the Investment Allowance system had involved an effective subsidy for some years, a new approach, the Investment Grant system was introduced in 1966. Such grants, however, had already been employed on a regional basis as part of an incentive scheme to relocate firms. Investment grants, generally equal to 20 per cent of the cost of plant and machinery (buildings continued to receive initial allowances), were paid in cash, thus making the subsidy explicit. The system was planned to be one on which firms could rely, with the cash payment being made within six months of the capital expenditure and being payable irrespective of whether the firm concerned was making profits. It was, therefore, hoped that, unlike the previous system, this would help firms making low profits or losses who were attempting to climb out of that situation by modernisation, re-equipment and expansion, to obtain economies of scale.

The grants were tax-free, but their net effect was none the less only found by deducting the going company tax rate from them. This is because

the total of annual allowances permitted was only the actual expenditure incurred by the firm - the remaining 80 per cent. In obtaining the grant, therefore, total depreciation was reduced by 20 per cent and tax was therefore now paid on this amount. With a tax rate of 40 per cent, a 20 per cent grant would then be worth 12 per cent (the same as a 30 per cent Investment Allowance).

In practice, the payments were rarely as fast as had been intended, and the system itself only lasted four years (though payments agreed under it will not taper out completely until approximately 1980). Criticism focused on the payment of subsidies to loss-making firms, the need for confirmation that investment was eligible for a grant, and the large increase in both government taxation and expenditure figures that resulted. So in 1970 the grant system was scrapped and a return was made to Initial Allowances at 35 per cent, but at 60 per cent for the first year as a short-term measure to accelerate investment, because of the high unemployment then existing. But in 1972 the rate was increased to 100 per cent (and from 15 to 40 per cent on buildings). In effect, capital costs are on a par with current costs, and there is the maximum deferment of tax liability in the first year consistent with no overall subsidy (other than the zero interest charge on deferment).

(ii) Regional Policy(*)

Regional policy in the UK has been primarily designed to halt and reverse the growing disparity between regions in terms of income per head,

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(*) See references (41) and (42) and (43) for a thorough discussion of regional policy.

unemployment and economic growth. However, it has also been seen as a means of reducing inflationary pressures and increasing productivity; the first by preventing excess demand for labour and wage inflation in some areas when unemployment in others requires reflation of the economy; the second by preventing under-utilisation of resources, both public and private, capital and labour, in some areas when acute shortages exist elsewhere. The depressed regions, which tended to do less well on all the criteria used, were regarded as being depressed either because they were heavily dependent on one or more declining industries, mainly coal, textiles, shipbuilding, and agriculture - or because they were inherently less conducive to industrial expansion, through distance from suppliers or from main markets or through geographical barriers to good communication and transport. Attempts to measure the relative importance of the two suggest that the former is generally the more serious, especially when allowance is made for the fact that dependence on the declining industry, by reducing the rate of increase of incomes per head in the region, leads to less rapid advance in other local trades, services, and firms, and so the region as a whole.

Conceived of purely in terms of differential rate of unemployment, it might be argued that policy could be designed to relocate the excess supply of labour in areas of excess demand, or relocate jobs through inducing firms to expand in areas of high unemployment.

The main line of policy has been to encourage firms to move to, or expand in the depressed regions. Here there have been two main types of instruments, the first being a system of control based on Industrial Development Certificates (I.D.C.S.) Any industrial development over 500 square feet required one of these to be obtained before planning

permission could be granted, and they were only readily issued for development in Development Areas, as the officially depressed regions became known in 1966 (I.D.C.s are in fact no longer required in these areas). The general policy elsewhere was only to issue an I.D.C. if it was likely that refusal would result in the loss of the development, either because it would not be embarked upon at all or because it would be relocated elsewhere in Europe.

The second instrument was to give incentives to firms to relocate. Initially these mainly took the form of higher investment incentives in the Development Areas. Cash grants were introduced in 1963 on both plant and machinery and buildings, in addition to 100 per cent initial allowances for the former. When Investment Grants were introduced throughout the country, the rate in the Development Areas at least 40 per cent was twice that elsewhere. Buildings also received 25 per cent cash grants in both Development Areas and the new classification known as Intermediate Areas (generally 'fringe' areas suffering the symptoms of regional depression but no so acutely), and 35 per cent in the new Special Development Areas where the problems were most acute. Only the cash grants for buildings (at different rates) were retained after the abolition of Investment Grants in 1970, with 100 per cent initial allowances again becoming the main regional incentive. But this was subsequently regarded as a mistake, not only because it reduced the assistance given but also because it is especially in the depressed regions that firms may be potentially and actually efficient in their operations but still inadequately profitable, and therefore unable to take full advantage of allowances as opposed to grants. So in 1972, cash grants were reintroduced for buildings, plant, and machinery at 20 per cent in Development Areas, 22 per cent in Special Development Areas and at

20 per cent on Buildings in Intermediate Areas. Unlike Investment Grants, these regional Development Grants, as they were known, did not result in a corresponding reduction in the total annual depreciation permitted. The introduction of these grants provoked criticism on the grounds that they were a capital subsidy with the biggest attraction for capital-intensive firms, whereas the high unemployment in the Development Areas suggested that it would be more efficient to attract labour-intensive ones. Partly in response to this the Regional Employment Premium was introduced in 1967. This was a direct subsidy to all firms in Development Areas per employee per week, with different rates for men, women and minors. Although they were originally to be phased out in 1974, and their future is still under review.

Many other regional instruments have been used, including the provision of infrastructure - roads, drainage, etc. - government-owned land and buildings at preferential rate, selective measures for land reclamation, clearance of derelict sites, removal grants, cheap loans, and grants to cover the cost of commercial loans. New Scottish and Welsh Development agencies now receive grants to establish and develop new industrial estates and purpose-built factories. In addition, there have been some efforts to polarize growth in particular areas by concentrating assistance, so that the expenditure there will have reinforcing 'regional multiplier' effects as the funds are spent on locally available goods and services rather than on ones 'imported' from outside the area. The size of these amplifying effects depends also on whether the subsidies are used to expand employment, increase wages, increase investment, lower prices, or pay out more dividends (the latter ones generally having smaller effects).

There are, however, many unknowns in the process of growth geographically and to date little has been achieved in this direction.

(iii) Labour Mobility[44]

The third element in previous policy has been the measures designed to increase the movement of labour from sectors of low productivity, over-manning, and long-term decline to those where the opposite conditions apply.

The main instrument used was Selective Employment Tax, introduced in 1965. It was a levy per head on nearly all firms in the country, rebated back to some and rebated back with an additional premium in others. Thus employment in some sectors, primarily services and distribution, could be taxed, and in others, primarily manufacturing, subsidised in an effort to induce over time a reduction in employment in the former and an increase in the latter.

This measure suffered in two ways. The subsidy element was only maintained for two years, after which the tax became a general revenue-raising tax no longer well suited for its redistributive function. In addition, its introduction coincided with a seven-year period of relatively high unemployment in which labour shortages in key sectors, manifest in periods of low unemployment, were much less significant. The measure was then removed shortly before the next sharp upswing in demand, and it remains unclear whether it had an impact in the interim. In addition, there is the Manpower Services Commission with, among others, the function of planning sectoral shifts of labour and the retaining it requires.

Third: The New Approach to Industry in the UK*

(i) The National Enterprise Board

The 1975 Industry Act established a National Enterprise Board. This is now in operation and has £1,000m. at its disposal, although it is envisaged that the bulk of this will be spent roughly in equal annual amounts over the four financial years 1976-80. Its major functions are specified as the improvement of industrial efficiency and international competitiveness, assistance to firms who are short of necessary funds, the take-over of existing government shareholdings to ensure profitable public enterprise, and the promotion of industrial democracy. It is able to buy up shares of private companies in the open market and provide funds to firms in return for a stake in their equity. Such public ownership is generally intended to be by mutual agreement with the company concerned, with compulsory nationalisation being quite separate and normally requiring a Bill to Parliament. Approval by the Secretary for State for Trade and Industry is required if a stake in a company is in excess of £10m. or 30 per cent of its total equity. He may give both general and specific directions to the N.E.B., against which there is no appeal, though it appears that this is primarily designed with overall strategy considerations in mind as opposed to day-by-day operations, together with the need to ensure overall Ministerial control of public funds. He also lays down the financial duties of the N.E.B. subject to the approval of the Treasury. The acquisition and operation of a loss-making concern for non-commercial reasons is to be separately accountable, emphasizing the commitment to profitability in its main operations.

(*) References (34, (36) and (45) give a full account of that approach.

According to draft guidances announced in March 1976, the N.E.B. will be subject to the same obligations and opportunities as companies in the private sector. In particular this includes: the City Code on Takeover and Merger operations; prices legislation; fair trading legislation; Industrial Development Certificates; planning controls; Regional Development Grants. In addition its subsidiary companies will not be able to obtain a competitive advantage by obtaining loans from the N.E.B. at lower than usual interest rates. Finally, the N.E.B. will not have access to information supplied by companies in confidence to the Government, for example in a Planning Agreement, even if a joint venture of some sort between the company and the N.E.B. is being contemplated.

(ii) Planning Agreements

Planning Agreements will not be enforcable civil contracts but the Government nevertheless intends they should be dependable from both sides. They are primarily designed for large firms but there will be no statutory requirement for any firm to enter one. If it does, however, it must provide the information required by the Government which is at the heart of the system. This covers existing and planned operations mainly with regard to investment, prices, product development, employment, exports, imports requirements, industrial relations, consumer protection and environmental aspects. It is envisaged that they would be three-year rolling agreements, but that existing company planning mechanisms and time horizons should be adopted if more convenient. In return the Government will make available its forecasts for the economy, its plans for the management of the economy, make grants under its existing powers where desirable, and guarantee these for the life of the

Planning Agreement. Unions will have access to these agreements but will not be a party to them.

(iii) Information Agreements

The 1975 Act also contains separate provision for company disclosure of information. Any firm may be required by the Secretary of State for Trade and Industry to provide information on its employment, output, capital, investment, sales, productivity, acquisitions, exports, industrial property, and other less important items, the main purpose being to make firms more generally accountable for their performance. Clearly, any firm with a Planning Agreement will already have provided information on many, if not all, of these, but the disclosure can apply to any firm and are not voluntary. This information will again be available to the trade unions concerned, unless it is in the national interest that it be kept secret. A company can, however, appeal to a committee specially created for the purpose on the ground that the disclosure would be harmful to the company's interests. If this appeal is accepted, the only people with access to the information apart from the committee and the company itself will be government departments concerned and the Manpower Services Commission. Whether this potentially harmful effect occurs will, therefore, depend on the discretionary power of this committee and whether it interprets it in a manner essentially sympathetic or hostile to the companies concerned.

3.3 Theoretical Concepts of the Structure of U.K. Industry

Abstract microeconomic theory identifies some relatively stable features of markets, such as the approximate numbers of buyers and sellers (one, few or many) and the barriers to entry into production and distribution. These are shown (a) to affect the relationships between sellers, and between buyers and sellers; (b) as a consequence of these interrelationships to give rise to particular patterns of competitive behaviour; and (c) by affecting conduct of behaviour, to influence industrial performance (for example, rates of profit and speed of technological change). Industrial economics is largely concerned with exploring these relationships. This is done in two main ways: first, by studying the market structure, behaviour and perhaps performance of particular industries and by investigating the effects of different market structures on the performance of industries using cross-section or comparative studies. As a final stage the industrial economist often makes public policy recommendations about such things as monopoly legislation and regional investment incentives.

Although detailed competitive conduct or behaviour depends upon the motivations and decisions of individual firms, the general pattern of behaviour will be strongly influenced by the environments in which firms operate. It is usually appropriate for analysis to concentrate on the environment for a group of firms which can be classified to a single industry, or which buy and sell goods in an identifiable market or group of markets. Business behaviour is then related to the structure of the relevant industry to market(s). However, in identifying this structure it is difficult or impossible to avoid a circular definition: the structure comprises those characteristics which are believed to be important for

It is normally assumed that there will be no significant entry barriers to atomistic markets but some barriers protecting monopolistic markets will exist. The oligopolistic group, however, is often further sub-divided according to the number and size distribution of firms and the scale-of-entry barriers. For instance, in discussing entry barriers, Bain[46] distinguishes between markets to which entry is blocked, that is those in which firms might pursue profit maximisation without entry being induced and markets with only moderate entry barriers, in which firms might be tempted to lower prices to forestall entry. The justification for the distinction, it should be noticed, lies not in the height of the barrier for its own sake but in its implication for the behaviour of established sellers. Similarly, allowance may be made for the relative sizes of firms. Oligopoly may be sub-classified according to the share of the market held by the leading firms, or the degree of inequality in size of the firms, or the presence or absence of a fringe of small firms. Once again the justification lies in hypothesised effects on behaviour and not in any concern for predictive accuracy.

Apart from the three major structural characteristics outlined above, plus the degree of buyer concentration, there is a long list of other potentially important variables which may affect market conduct and peformance. The list includes: variables affecting demand conditions, such as price elasticity of demand, short-run income elasticity and long-run rate of growth; variables affecting supply conditions, such as economies of scale, cost flexibility, vertical integration and the underlying rate of technical advance; and forms of government intervention, such as specific taxes, hire-purchase controls, price and output regulations.

As for concentration measures, although the typology of industry situation used in price theory relies heavily on the number of competing

firms involved, neither the precise absolute numbers, except for the specially defined cases of monopoly and duopoly, nor the size distribution of firms, are specified. For the large-numbers cases, variously defined to include perfect and pure competition, atomistic competition and monopolistic competition, the key feature is that a single firm's actions will have no appreciable effect on other firms individually, and hence there will be no attempt to consider their reactions. The only requirement is that individual firms are sufficiently small relative to the industry for this independence condition to hold; the number of firms this involves is unspecified. For oligopoly the key feature, on the other hand, is that the actions of individual sellers will appreciably affect other firms so that the latter's reactions have to be anticipated. Once again, however, there is no specific number, such as two or twenty, that identifies to the numbers requirement. Nevertheless it is clear that the degree of independence will be affected by the number of firms, other things being equal. Apart from the special case of monopoly, the degree of interdependence, defined by the impact of one firm's actions on another firm, will vary inversely with the number of firms if product homogeneity is assumed.[9]

One crude way, therefore, of comparing industries is by ranking them according to the number of firms involved. Obviously this provides only a very limited measure of interdependence so an alternative approach is to measure the proportion of an industry controlled by a given number of leading firms, or the number of firms required to control a given proportion of the industry. The former provides the most common measurement: the concentration ratio for a specified number of firms, gives the proportion of the domestic industry's assets, sales, output, value added or employment controlled by those firms. In the United Kingdom

the number of leading firms has now been standardised at five in the government's Census of production statistics. In the United States the shares of the leading four, eight and twenty firms are used.

Further, it is apparent that the assessment of concentration is critically dependent on the choice of the number of leading firms to be included in the concentration ratio.

A second measurement problem concerns the choice of an appropriate measuring-rod from among sales, net output, employment, assets and capacity. If assets or employment are chosen to measure firm's market share, the value of the concentration index will partly reflect the capital intensity of their production technology: those firms in an industry using relatively capital-intensive techniques will seem larger if assets are used, and smaller if employment is used, as the measuring rod. Similarly, the net output, employment and assets of a firm will reflect the extent to which it is vertically integrated. The net output or value added (sales minus purchases of inputs from other firms), employment, and assets will be greater for the vertically integrated firm, even if its final sales are only the same as those of another less vertically integrated firm. By avoiding this vertical-integration problem, the sales measure probably gives the most appropriate indication of concentration. However, fortunately for inter-industry comparisons, the choice of measuring-rod generally does not seriously affect the concentration ranking of industries.(47) As long as the analyst remembers the limitations and biases of his tools, the interpretation of results can be appropriately adjusted.

With all these provisos in mind, we now turn to the concentration of U.K. industry. The classification is based on the five-firms concentration ratio and takes no account of the size distribution and absolute numbers of firms. In only a small number of cases, at least in the private sector, is anything like a monopoly approached: the dominance of Courtaulds in the production of rayon, and Pilkingtons in the production of flat glass, do however, provide examples. At the other extreme there are a relatively small number of cases where the major firms control less than 30% of domestic output in a national market which may be described as domestic. In between lie the great mass of industries which are weakly, moderately or highly concentrated and which may be described as oligopolistic. However, remembering the many other dimensions of market structure outlined earlier, as well as the differing size distributions of firms, it is clear that UK industry includes a wide variety of structures within the overall oligopoly class.

A major factor in this progressive increase in concentration has been the tremendous acceleration in takeover activity. Some indication of the impact of this upsurge is given by the Monopolies Commission.[48] The sample consisted of 2024 companies existing in 1957 that had assets of over £0.5 million at the beginning of 1961, were engaged in operations mainly in the United Kingdom, and had a quotation on a U.K. federated stock exchange at the beginning of 1961. By the end of 1968 the original 2024 companies had been reduced to 1253, a reduction of 38%.

Although takeovers and mergers have undoubtedly been an important factor causing increase concentration, it should also be remembered that this need not lead to an increase in monopoly power. In so far as mergers take place between small and medium-sized firms, or between small firms

and large firms in other industries, the effect may be to increase effective competition, not to reduce it. Further, concentration may also change as a result of the differential internal growth rates of firms within an industry. Thus Walshe[49] commenting on a survey of high concentration industries up to 1963, noted: "in effect, however, he concluded that internal and external expansion has been equally responsible for the promotion of monopoly, near monopoly and tight oligopoly . Whether this rough equality of responsibility has survived the merger boom of the late 1960s and early 1970s is perhaps more doubtful."

So far the discussion of industrial structure has been concerned only with the degree of concentration in individual markets, ignoring the fact that many firms operate in more than one market. So we ought to discuss diversification.

Someindication of the importance of diversification is provided by Channon.[50] He examined the diversification pattern of the largest hundred manufacturing companies operating in Great Britain in 1969-70 using a fourfold classification system. First, single-product firms are those for which at least 95% of sales lie within a single-product area such as computers. Notice that within the one product area a firm may produce a wide range of individual products and models. By 1970, only six of the one hundred largest firms fell into this group. Second, Dominant-product firms are those which have one major product line but also have secondary lines making up to 30% of the firm's total sales volume. Thirty-four firms fell into this group. Third, related-product firms are those for which no one product line accounts for 70% of the total sales but whose various activities are linked by related technology, vertical integration

and/or sales in related markets. This group contained fifty-four firms. Finally, unrelated-product firms are those whose main product line accounts for less than 70% of the total sales but whose expansion has been into new markets and new technologies unrelated to the original product market. There were only six such firms in the largest hundred in 1970.

Although it is clear that the major manufacturing companies are generally diversified, a surprisingly high proportion still have a single dominant-product line. For example, all the major motor car firms fall into the dominant-product group; their diversification extends, in the main, only to the production of the lorries and buses or tractors. Similarly, most of the brewing firms have confined their other interests to the ownership of public houses and minor related activities such as wine and spirits distribution and soft drinks. Finally, it should be noted that very few large firms are conglomerates operating in a variety of unrelated activities. For manufacturing industry as a whole, Amey [51] and Sawyer[52] have provided a measure of the degree of diversification based on the Census of Production. It is the ratio of output of firms in industries other than that to which they are classified in the Census of Production to their total output. The larger the output in other industries relative to the total output, the higher the index of diversification. For 1958, Amey found that the degree of diversification in manufacturing industry averaged 14.2% and ranged from 26.4% for soap and fats to 0.9% for cocoa, chocolate, sugar and confectionery. For 1963, Sawyer found that the average degree of diversification had risen to 19.3%. Although up-to-date figures are unavailable it seems clear that this trend of increasing diversification is continuing.[53]

Now we turn to barriers to entry in UK manufacturing industry. In abstract terms, entry barriers are the obstacles preventing new firms from engaging in the production and distribution of a particular good or service. In conventional price theory their significance lies in their implications for long-run equilibrium levels of price and profit. If there is perfect ease of entry, price cannot in the long run exceed the minimum average cost of production, and consequently super-normal profits cannot be earned in the long run. Conversely, if there are entry barriers, price may exceed minimum average cost even in the long run, and abnormal profits may thus persist. Alternatively, though not within the profit-maximisation framework, actual average costs may persistently exceed the minimum levels potentially achievable as managers and workers enjoy a quiet life.

It is also possible that the scale-of-entry barriers might affect short-run competitive behaviour.(54) Specifically, price hypotheses suggest that firms in industries protected by intermediate levels of entry barrier might maximise their long-run profits (or present value of future profits) by moderating their current prices so as to persuade potential entrants that the actual entry would prove unprofitable. Indeed, one measure of barriers to entry is couched in terms of this theory: 'the condition of entry is measured numerically as the percentage by which the maximum entry forestalling price exceeds the minimum attainable average costs of established firms'.(55)

Three main types of entry barriers are normally distinguished: product differentiation, absolute cost advantages and economies of scale. First, buyers may show a performance for the products of established firms

compared with those of new entrants. Thus, in order to secure sales at comparable prices, a potential entrant may expect to incur market-penetration costs which raise sales-promotion costs per unit of output above those of established firms. Alternatively, the entrant might be forced to accept a lower price than established firms in order to persuade customers to buy a similar product. Since the effect of buyer preference, or product differentiation, is to force entrants to incur higher costs, or to receive lower prices, than established firms, it is often coupled with the absolute cost advantage barrier. However, there may also be economies of scale in sales promotion.

An absolute cost advantage occurs when potential entrants expect to incur a higher cost per unit than established firms at any scale of output. This situation might occur because existing firms have control of, or favourable access to, supplies of factor inputs such as raw materials or management; have superior production techniques which are not readily available to entrants because of patents or other restrictions on the supply of technical knowledge; or enjoy lower costs of finance.

Finally, economies of scale barriers exist when the minimum optimum scale of production represents a large proportion of industry output and unit costs rise noticeably at sub-optimal scales. Entry at a large scale relative to industry size in a static market implies a large reduction in output by existing firms to accommodate the entrants and/or a reduction in price as supply is increased while demand remains constant. The implication is that entry at such a scale may prove unprofitable because there is 'room' only for existing firms. Obviously entry into an expanding market presents less of a problem. The alternative of entry at a sub-optimal scale, thus incurring a cost penalty, may reduce the market

disturbance but it leaves the entrants with higher costs than established firms, and perhaps as a result vulnerable to price competition. Economies of scale may rise at the plant level in production and at the firm level in research and development, management, marketing and finance.

Some analysts prefer a longer list of more narrowly defined barriers but most of these can be fitted into the threefold classification mentioned above. However, two require special mention. The requirement of large initial capital outlays, and the sometimes related vertical integration of existing firms, are generally barriers to entry only for small firms rather than barriers to any firm. So long as the vertical integration by existing firms does not involve the control of the supply of scarce materials or preferred distribution channels, an entrant with sufficient capital can obtain the same advantage by becoming a vertically integrated concern itself.

Since there are no comprehensive statistics on barriers to entry, it is only possible to give a general indication of their significance. The main data for the United Kingdom provided by Pratten[56] and Silberston[57] relate only to economies of scale. However, their data may be supplemented by more impressionistic data on other barriers by Walshe[58] for some very highly concentrated industries.

Despite the difficulties, Pratten[59] has provided estimates of scale economies for a wide range of products. In his findings it is apparent that for many products, though not all, UK output will only sustain a monopoly or highly concentrated oligopoly of firms. This may partly explain the generally high level of concentration in the United Kingdom that was noted earlier. However, from the point of view of entry barriers,

this impression has to be modified to allow for those industries where the unit-cost penalty for sub-optimal scale operation is fairly small.

Product-differentiation barriers almost certainly provide strong reinforcement to scale-economy barriers in some industries. In other cases, such as detergents, it is the product-differentiation barriers itself that provides the main obstacle. In Walshe's[60] survey of forty-four high-concentration products, advertising is specified as a barrier in fifteen cases. Significantly this includes fourteen out of twenty-two consumer goods. Distributive ties or linkages are specified in seven cases.

Of the absolute cost barriers technical knowledge seems to be particularly important. Patents, technical know-how and/or research and development expenditure occur in twenty-nine of the forty-four cases. Access to raw materials, however, is only specified in six cases.

Although it is clear that barriers to entry do exist in many industries, strong reservations must be recorded concerning their competitive importance. In a significant proportion in the UK international trade reduces the monopoly power of the domestic suppliers. First, foreign producers may export to the United Kingdom over relatively low or non-existent tariff barriers. Second, large foreign firms often have the capital, the technical knowledge and, after initially importing products into the UK, the distribution links necessary to set up plant profitably in the domestic market. Further, larger established domestic firms are often similarly favourably placed to diversify into other markets.[61] Finally, the barriers may deter immediate entry to the main part of a

market but still leave sufficient gaps to let entrants into specialist sub-sections. Once in, specialists can often widen their range so as to become a significant competitive force in the market generally.

As far as Product Differentiation is concerned, theoretically, product differentiation exists when buyers regard the products of different firms in the same industry as being imperfect substitues: that is, there is a less that infinite cross-elasticity of demand between products.

Although the degree of product differentiation is generally treated as an element of market structure, it must also be remembered that product-differentiation activity, like pricing, is an integral part of the competitive strategy of the firm. Differentiation is pursued in a wide variety of ways, including branding products, advertising them, and carrying out periodic model and style changes; new-product competition based on research and development work; and the provision of technical advice, after-sales service and credit facilities. It is aimed at creating and influencing the position and shape of a product's demand curve.

Despite some overlap it is useful to distinguish between sources of product differentiation emanating largely from the product itself and those emanating largely from the firm selling the product. Included in the first group are the services derived from the particular physical characterics of a product: for instance such things as taste and nutritional content in food; or reliability, length of life, speed, comfort and safety in cars. In addition, products may be differentiated by services such as the length and comprehensiveness of the guarantee and the quality of after-sales servicing. Finally, the product may be differentiated by location: obviously this is true of petrol sold at different petrol stations.

Taking the second group, product differentiation by firm or 'goodwill', Andrews[62] includes confidence in the security and speed of supply, reputation for quality, personal contacts and the mutual adaptation of products and delivery arrangements to fit the convenience of trading partners. These, reinforced by loyalty, and the costs of changing supplier, may create consumer performances which override adverse price differentials. A simple example of the operation of 'goodwill' arises when the risk of future supply shortages causes buyers to accept the slightly higher current prices of an existing supplier in the expectation that loyalty will be awarded by preferential treatment when and if shortages occur. In practice, of course, firms seek to reinforce product differentiation in the narrow sense by strongly identifying their products with the firm, thus creating a more generalised goodwill which may benefit all the firm's products and carry over from one model to its replacement.

A theoretical measure of the degree of product differentiation is provided by the cross-elasticity of demand between products. For example, a high cross-elasticity of demand would indicate relatively little product differentiation. In practice, there is very little evidence on cross-elasticities of demand so that classification of products by degree of product differentiation is largely a matter of judgement. Nevertheless, it is possible to make some general statements about the incidence of differentiation.

First, let us consider intermediate goods purchased by firms. For simple industrial raw materials such as plain cotton cloth where physical specification may be closely defined, there is virtual product homogeneity in the narrow sense. The frequency of purchase, experience in handling and the often high total cost involved encourage a high level of buyer knowledge

so that any price differences between products largely cost differences due to particular product specifications. However, goodwill between firms, and individuals in them, may provide some differentiation in the sense that small price differences may be tolerated.

For complex industrial goods such as marine engines and earth-moving equipment, a higher degree of differentiation is likely to exist. This may arise because the 'models' offered differ, though since orders are often for custom-built machines rather thanfor off-the-shelf models, several competitors may be asked to tender for physically identical machines. In either case frequency of purchase may be important variable. Although product characteristics may be carefull specified, the purchaser may lack the knowledge to evaluate product claims and their implications. Where purchases are frequent that this knowledge will soon be acquired. However, where purchases are infrequent, as in the case of some capital goods, the buyer may be forced to supplement his 'knowledge' of the product by his 'knowledge' of the firm that produces it. Here the concept of 'goodwill' becomes important. The buyer's evaluation of product differentiation becomes an estimate of the engineering skills of the producer backed up by differences (perceived) in the equality of technical advice and after-sales service. However, despite the undoubted existence of differentiation between intermediate goods allegedly fulfilling the same function, it is probably true that the level of differentiation is generally fairly small between the products of most established firms in a given market unless there is patent protection. On the other hand, there may be a significant degree of differentiation between the products of established firms and those of new entrants. Even if patents or technical know-how do not provide a sufficiently high barrier to prevent entry, the established firms may retain considerable goodwill because buyers have

confidence in the proven technical skills of such firms. Advertising, on the other hand, is not a significant factor in industrial-goods differentiation: for twelve producer-goods industries for which data is available the advertising-to-sales ratio averaged only 0.5% in 1963 with the highest being only 1.1%.(63)

For consumer goods the degree of product differentiation is probably more varied, and is certainly more difficult to interpret. The products range from those for which differentiation is weak or non-existent, as with fresh vegetables, to some 'status-symbol' goods such as Rolls-Royce cars for which exclusiveness is perhaps the main function.

Although only one of several methods of sales promotions, advertising is often regarded as an important source of differentiation in consumer-goods industry. Measured as a proportion of consumers' expenditure on particular products, the general level is fairly low: the 1963 advertising ratio for twenty-eight consumer goods industries (Census industries) for which data were available averaged 3.0%. However, the average conceals a wide variation, with the ratios for these industries ranging from 0.05% for sugar to 16.4% for toilet preparations. Apart from toilet preparations other industries with high advertising-sales ratios included soap and detergents (13.8%), pharmaceuticals (8%), and domestic electrical appliances (5.1%).(64)

3.4 The Economics of Customs Union: Customs Union as an Approach to Free Trade(*)

The literature on customs unions in general, whether written by economists, by free-traders or protectionists, is almost universally favourable to them, and only here and there is a special note to be encountered usually by an economist with free-trade tendencies. It is a strange phenomenon which unites free-traders and protectionists in the field of commercial policy, and its strangeness suggests that there is something peculiar in the apparent economics of customs unions.

The free-trader and the protectionist, in their reasoning about foreign trade, start from different premises - which they rarely state fully - and reach different conclusions. If in the case of customs unions they agree in their conclusions, it must be because they see in customs unions different sets of facts, and not because an identical customs union can meet the requirements of both the free-trader and the protectionist. It will be argued here that customs unions differ from each other in certain vital but not obvious respects, and that the free-trade supporter of customs union expects from it consequences which, if they were associated in the mind of the protectionist with customs union, would lead him to oppose it. It will be argued, although with less conviction because it involves judgements about quantities in the absence of actual or even possible measurement, that with respect to most customs union projects the protectionist is right and the free trader is wrong in regarding the project as something, given his premises, which he can logically support.

(*) See References 65 - 73.

To simplify the analysis, it will at first be confined to perfect customs unions between pairs of countries; and the 'administrative' advantages of customs unions, such as the lowering of customs walls, and the 'administrative' disadvantages, such as the necessity of coordinating customs codes and of allocating revenues by agreed formula, will be tentatively disregarded. Also, to separate the problem of customs unions per se from the question of whether in practice customs unions would result in a higher or in a lower 'average level' of duties on imports into the customs union area from outside the area, it will be assumed that the average level of duties on imports from outside the customs area is precisely the same for the two countries, computed as it would be if they had not formed the customs union. It will at first be assumed that the duties are of only two types 'nominal duties', that is, duties which have no effect on imports because there would be no imports of commodities of the kind involved even in the absence of any import duties on them; and 'effective protective duties', that is, duties which operate to reduce imports not only by making commodities of the specific kind involved more expensive to potential consumers and so lessening their consumption, but also, and chiefly, by diverting consumption from imported commodities to the products of corresponding domestic industries. The analysis will be directed toward finding answers to the following questions: in so far as the establishment of the customs union results in change in the national locus of production of goods purchased, is the net change one of diversion of purchases to lower or higher money-cost sources of supply, abstracting from duty-elements in money costs:

(1) For each of the customs union countries taken separately;

(2) For the two combined;

(3) For the outside world;

(4) For the world as a whole.

If the customs union is a movement in the direction of free trade, it must be predominantly a movement in the direction of goods being supplied from lower money-cost sources than before. If the customs union has the effect of diverting purchases to higher money-cost sources, it is then a device for making tariff protection more effective. None of these questions can be answered directly, and the correct answers will depend on just how the customs union operates in practice. All that analysis can do, is to demonstrate, within limits, how the customs union must operate if it is to have specific types of consequence.

The removal of the 'nominal' duties, or duties which are ineffective as barriers to trade, can be disregarded, and attention can be confined to the consequences of the removal, as the result of customs union, of duties which previously had operated effectively as a barrier, partial or complete, to import.

There will be commodities, however, which one of the members of the customs union will now newly import from the other, but which it formerly did not import at all because the price of the protected domestic product was lower than the price at any foreign source plus the duty. This shift in the locus of production as between the two countries is a shift from a high-cost to a lower-cost point, a shift which the free-trader can properly approve, as at least a step in the right direction, even if universal free trade would divert production to a source with still lower costs.

There will be other commodities which one of the members of the customs union will now newly import from the other whereas before the customs union it imported them from a third country, because that was the cheapest possible source of supply even after payment of duty. The shift in the

locus of production is now not as between the two countries but as between a low-cost third country and the other, high-cost, member country. This is a shift of the type which the protectionist approves, but it is not one which the free-trader who understands the logic of this own doctrine can properly approve.

Simplified as this exposition is, it appears to cover most of the basic economic issues involved. The primary purpose of a customs union, and its major consequence for the good or bad, is to shift sources of supply, and the shift can be either to lower or to higher-cost sources, depending on circumstances. It will be noted that for the free-trader the benefit from customs union to the customs union area as a whole derives from that portion of the new trade between the member countries which is wholly new trade, whereas each particular portion of the new trade between the member countries which is a substitute for trade with third countries he must regard as a consequence of the customs union which is injurious for the importing country, for the external world, and for the world as a whole and is beneficial only to the supplying member country. The protectionist on the other hand, is certain to regard the substitution of trade between the member countries for trade with the third countries as the major beneficial feature of customs union from the point of view of the participating countries and to be unenthusiastic about or even to regard as a drawback - at least for the importing country - the wholly new trade which results from the customs union.

From the free-trade point of view, whether a particular customs union is a move in the right or in the wrong direction depends therefore, so far as the argument has as yet been carried, on which of the two types of consequences ensue from that custom union.

Where the trade-creating force is predominant, one of the members at least must benefit, the two combined must have net benefit, and the world at large benefits; but the outside world loses, in the short-run at least, and can gain in the long run only as the result of the general diffusion of the increased prosperity of the customs union area. Where the trade-diverting effect is predominant, one at least of the member countries is bound to be injured, both may be injured, the two combined will suffer a net injury, and there will be injury to the outside world and to the world at large. The question as to what presumptions can reasonably be held to prevail with respect to the relative importance in practice of the two types of effects will be examined subsequently.

To the reasoning presented above, there is one qualification in favour of a customs union which needs to be made, on which both free-traders and protectionists can, with reason, find some common ground, although they both tend to exaggerate its importance for the customs union problem. It has here been assumed hitherto that in so far as a customs union has effects on trade these must be either trade-creating or trade-diverting effects. This would be true if as output of any industry in a particular country increases over the long-run relative to the national economy as a whole, its costs of production per unit relative to the general of costs also tended to rise. Economists are generally, however, agreed that there are firms, and consequently also industries, where this rule does not hold but instead unit costs decrease as output expands. From this they conclude that, for example, in a small country, because of the limited size of its domestic market (and, it should be added, the prevention by foreign tariffs of its finding a market outside), may be unable to reach a scale of production large enough to make low unit-costs of production possible, two or more such countries combined may provide

a market large enough to make low unit-cost production possible. If an industry which thus expands, whether from zero or from a previous output, is in country 'A', and the other member of the customs union is in country 'B', the diversion of 'B's' imports from a country 'C', outside the customs union to country 'A', may be a beneficial one for 'B' as well as for 'A'. Moreover, there may be suppression of trade, namely, of the imports of 'A' from 'C' of the commodity in question, which may also be beneficial to 'A'. Whether such diversion - and suppression - of trade will, from the free-trade point of view, be beneficial or injurious to 'A' will depend on several circumstances. The cost of production in 'A' of the commodity in question is now lower than it was before. There is gain, therefore, for 'A' as compared to the pre-customs-union situation with respect of its present output which corresponds to its previous output (which may have been zero), and there is clear gain on such of its additional output as is now exported to 'B'. On additional output beyond this, however, there is loss to 'A' if the new cost, though lower than the previous one, is higher than the cost (before duty) at which it is obtainable from 'C', but there is additional gain to 'A' if the new cost is lower than the cost (before duty) at which it is obtainable from 'C'. For 'B', there is loss by the amount imported by 'B' times the per unit amount by which 'A's' price exceeds the price at which 'B's' import needs could be supplied by 'C'; there is gain to 'B' only if 'A's' price is now lower than 'C's' price (before duty). There is thus a possibility - though not, as is generally taken for granted in the literature, a certainty - that if the unit-cost of production falls as a result of the enlarged protected market consequent upon customs union there will be a gain from customs union for one of the members, for both the members, and/or for the union as a whole, but there is also a possibility - and often a probability - that there will be a loss in each case.

It does not seem probable that the prospects of reduction in the unit costs of production as a result of enlargement of the tariff area are ordinarily substantial, even when the individual member countries are quite small in economic size. The arguments for substantial economies from increased scale of industry presented by economists rest wholly or mostly on alleged economies of scale for plants or firms, and on the assumption that large scale plants or firms are not practicable in small industries and therefore in small countries. It seems unlikely, however, that substantial efficiency-economies of scale of plant are common once the plants are of moderate size, and in most industries plants can attain or approach closely their optimum size of efficiency even though the industries are not large in size. Were it not for trade barriers, moreover, even small countries could have large industries.

There are few industries, even in countries where large-scale production is common, in which there are not plants of moderate size which are as efficient, or nearly as efficient, measured in unit-costs, as the giant plants; and there are few giant firms which do not maintain some of their plants, presumably as a profit, on a moderate scale. There are few manufacturing industries - and the economies of scale of plant or industry are generally conceded to be confined mainly or only to such industries - which have not been able to maintain themselves on a low cost basis in one or more small countries such as Switzerland, Sweden, Denmark, or Belgium. If the applicability of this argument is confined to products which nowhere are produced at low unit-cost from plants which are quite small, either absolutely or as compared to the maximum size elsewhere, the scope of the argument is much more limited than is commonly taken for granted. It may be asked in rebuttal, how then to explain the existence of giant plants and giant firms? It is a partial

answer: firstly as to size of plants, that the survival of plants of moderate size in competition with the giant plants calls equally for explanation; and secondly as to size of firms, that there are in an imperfectly competitive world many incentives to growth in size of firm even at the cost of efficiency in production - firms of quite undistinguished records in efficiency of production have been known to grow by absorption of more efficient smaller firms and by the use of monopoly power in buying and in retention of customers, and generally speaking, growth in size is more often the result of efficiency than contributory to efficiency.

The general rule appears to be that once an industry is large enough to make possible optimum scale - and degree of specialisation of production in plants, further expansion of the industry in the national economy size is bound to be under conditions of increasing unit-costs as output increases. To expand, the industry must draw away from other industries increased amounts of the resources it uses, and consequently must pay higher prices per unit for resources of the type which it uses more heavily than does industry at large, and must reduce the extent to which it uses them relative to other types of resources, thus bringing into operation the law of diminishing returns. It may be objected that this will not hold true in the case of a customs union, since this in effect increases the overall size of the 'national' economy. It is the supply conditions of factors of production, however, which are the relevant restrictive factor on expansion of output of an industry without increase of unit-costs, and unless a customs union appreciably increases the inter-member mobility of factors of production, it does not in this sense increase the 'scale' of the 'national' economy from the point of view of production conditions even if it does increase it from the point of view of the size of the protected market for sales.

When the customs union operates to divert trade from its previous channels rather than to create new trade, the partial removal of duties which it involves operate in analogous manner to increase the protective effect for high-cost producers of the duties which remain, not,however, by reducing imports into their own national territory but by extending the operation in their favour of the protective duty to the territory of the other partner of the customs union. It would, in theory, be possible that if two areas were joined in customs union, the customs union would have no trade-creating effect and only trade-diverting effect, i.e. no industry in either area would meet with new competition from the other area, while some high-cost industries, existing or potential, in each area would acquire a new set of consumers in the other area who would be placed at their mercy because the customs union tariff would now shut them off low-cost sources of supply.

A customs union is more likely to operate in the free-trade direction, whether appraisal is in terms of its consequence for the customs union area alone or for the world as a whole:

(1.) The larger the economic area of the customs unions and therefore the greater the potential scope for internal division of labour.

(2) The lower the 'average' tariff level on imports from outside the customs union area as compared to what that level would be in the absence of customs union.

(3) The greater the correspondence in kind of products of the range of high cost industries as between the different parts of the customs union which were protected by tariffs in both the member countries before customs

union was established, i.e. the less the degree of complementarity - or the greater the degree of rivalry - of the member countries with respect to protected industries, prior to customs union.

(4) The greater the differences in unit-costs for protected industries of the same kind as between parts of the customs union, and therefore the greater the economies to be derived from free trade with respect to these industries within the customs union area.

(5) The higher the tariff levels in potential export markets outside the customs union area with respect to commodities in whose production the member countries of the customs union would have a comparative advantage under free trade, and therefore the less injury resulting from reducing the degree of specialisation in production as between the customs union area and the outside world.

(6) The greater the range of protected industries for which an enlargement of the market would result in unit-costs lower than those at which the commodities concerned could be imported from outside the customs union area.

(7) The smaller the range of protected industries for which an enlargement of the market would result in unit-costs lower than those at which the commodities concerned could be imported from outside the customs union area which would nevertheless expand under customs union.

Confident judgement as to what the overall balance between these conflicting considerations would be, it should be obvious, cannot be made for customs unions in general and in the abstract, but must be confined to

particular projects and be based on economic surveys thorough enough to justify reasonably reliable estimates as to the weight to be given in the particular circumstances to the respective elements in the problem. Customs unions are from the free-trade point of view, neither necessarily good nor necessarily bad; the circumstances discussed above are the determining factors. It would be easy to set up a hypothetical model where customs union would mean nothing economically except an intensification of uneconomic protection, an increase in the effectiveness of trade barriers as interferences with international division of labour. A universal customs union, on the other hand, would be the equivalent of universal free trade. Actual customs union must fall somewhere between these two extremes.

There must be, however, a warning that this analysis not only takes for granted the validity - at least when only purely economic considerations are taken into account - of the argument for freetrade from a cosmopolitan point of view, but that its results are much less favourable to customs union in general than the position taken by most free-trade economists who have discussed the issue, one of the few exceptions was Robbins, regarding customs union and the 'terms of trade', there is a possibility of economic benefit from tariff to the tariff-levying country. Countries may be able to exploit more effectively combined in customs union than if they operated as separate tariff areas. This benefit to the customs area, however, carries with it a corresponding injury to the outside world. A tariff does not merely divert consumption from imported to domestically produced commodities; this is from the free-trade point of view and the economic disadvantage for the rest of the world; but it also alters in favour of the tariff-levying country the rate at which its exports exchange for the imports which survive the tariff, or its 'terms of trade', and within limits - which may be narrow and which can never

be determined accurately - an improvement in the national 'terms of trade' carries with it an increase in the national total benefit from trade. The greater the economic area of the tariff-levying unit, the greater is likely to be, other things being equal, the improvement in its terms of trade with the outside world resulting from its tariff. A customs union, by increasing the extent of the territory which operates under a single tariff, thus tends to increase the efficacy of the tariff in improving the terms of trade of that area vis-a-vis the rest of the world.

The terms of trade of a customs area with the outside world can be influenced not only by its own tariff, but by the tariffs of other countries. The higher the tariffs of other countries on its export products, the less favourable, other things being equal, will be the terms of trade of a customs area with the outside world. But the level of foreign tariffs can be affected in some degree through tariff bargaining, and the larger the bargaining unit, the more effective its bargaining can be.

However, tariffs could be an effective factor as far as terms of trade are concerned, but still it is largely a function of price levels. In the meantime the latter is the offspring of exchange rate fluctuation and inflation rates.

3.5 Integration and Interdependence of the World Economy

The economic integration of the western democracies has proceeded apace ever since, at the end of the 1950s, they set themselves firmly on the path of trade and payments liberalization. The growth of international transactions has been formidable in all spheres of economic activity and lately appears to have the control of the national governments. Will they accept this loss of control, or will they attempt to reassert their power? There is no historic precedent. In the laissez-faire, laissez-passer, days of the late nineteenth century, the free play of market forces presented no direct challenge to the autonomy of the nation-state, since the latter had not yet assigned to itself a predominant role in economic affairs. In the late twentieth century the right - or duty - of the state to govern the economy is widely (though not universally) recognized. It is certainly a fact that government intervention is practised in all market economies to a greater or lesser extent. The fact that a large and growing volume of national transactions should be conducted with the outside world, and that national control over these transactions is slipping, therefore reduces the state's power of action in the economic sphere.

The state's autonomous power of decision in economic matters has been reduced in two ways. First, the state has voluntarily relinquished its power of autonomous action by means of treaties and agreements, in return for a corresponding reduction in the power of independent action by its partners, in a number of fields where the gains from international cooperation outweigh the loss of absolute autonomy. Thus countries are not free to change their tariffs at will, since most of them have been fixed at precise levels in the course of international negotiation and are so listed in an international convention. Until August 1971, when

President Nixon announced the inconvertibility of the United States dollar into gold, countries were not free to alter their exchange rates (that is, the parity of their currency in terms of gold or dollars) without the blessing of their trade partners.

Secondly, the relative 'openness' of the national economies towards each other means that policies in one country can have an instantaneous effect in another - and these effects may work counter to the economic policy that a government is attempting to pursue. The classical way in which the permeability of economic units in an international/nation-state system found expression was through the balance of payments. Thus a government policy aimed at promoting growth by increasing the total expenditure of its citizens could well thwart the policy of another government attempting to stabilise prices by reducing expenditure. In a world of many governments, however, these effects would be dissipated over a large area and would usually be discounted by the formulators of domestic economic policy. During the 1960s, however, there developed a new way in which the permeability of economic units could be expressed, namely via short-term finance. Central banks have long appreciated the equilibrating influence of short-term capital movements on the balance of payments, for when a government raised the interest rate to reduce domestic expenditure in order to bring overall receipts and expenditure into line, international short-term capital flowed into the country, increased receipts and reduced the size of the necessary cuts in expenditure. Though, these short-term flows have had destabilising effects, because the credibility of the fixed-exchange-rate system was in doubt, with the result that large sums of money moved more in relation to possible exchange-rate alterations than in relation to international interest-free differentials.

One of the reasons for the breakdown of the fixed-exchange-rate system was that countries were not willing to submit to the discipline that it implied. It implied, above all, equilibrium between payments and receipts within each participating unit. Nevertheless, full employment and a high level of economic activity were more important economic objectives socially and politically, than the maintenance of a fixed exchange rate, with the result that whenever economic activity flagged, governments did not hesitate to inject extra spending power into the economy, irrespective of the balance of payments situation. This led to greater balance of payments disequilibria than the fixed-exchange-rate system could cope with in the absence of closer international economic cooperation. Wirting in 1968, Richard Cooper, of Yale University,(74) reached the conclusion that as internal deflation was not acceptable as a means of re-establishing balance of payments equilibrium, and as countries had lost the power to alter their tariffs and exchange rates autonomously, the only acceptable way of combining the benefits of extensive economic interdependence with retention of sufficient national autonomy for the pursuit of legitimate economic objectives would be the 'close international coordination of external measures' (that is, of tariffs, quantitive restrictions, exchange control).

The possibility that governments should coordinate their economic policies with regard to inflation and full employment, thus reducing the extent of the balance-of-payments disequilibria, would clearly be preferable to the controlled use of restraints as proposed by Professor Cooper, but would imply a further and possibly unacceptable loss of national economic autonomy. In the event, cooperation was achieved on neither and the fixed-exchange-rate system buckled under the strain.

At the first sign of weakness, short-term capital movements ceased to be a stabilising factor in the adjustment process and followed to surplus countries and away from deficit countries, anticipating an alteration in the rate of exchange. Now, governments do not have many alternatives: if they wish to re-establish a credible system of exchange rates, they must coordinate their policies with regard to employement and inflation(75) As yet these proved to be goals rather than agreed implemented policies governments opted for flexible exchange rates and for agreements on trade and payments.

The events in the international monetary sphere from 1968 to 1973 confirm what economists have been saying for years about the need to coordinate national economic policies within an integrated area, the assumption being that the members of the integrated area would operate on the basis of fixed exchange rates. If no attempt to coordinate economic policies was made, the argument went on, divergent national policies would exacerbate balance-of-payments disequilibria and lead to trade and currency controls or exchange-rate variations.

Masking this spontaneous trend towards economic integration throughout the developed free-market world were two conscious attempts to integrate economically, namely the European Economic Community (EEC) and the Euro pean Free Trade Association (EFTA). These conscious efforts to integrate complemented and reinforced the spontaneous trend towards the wider integration referred to above. Thus the creation of the EEC induced the United States to offer unprecedented tariff concessions in order to mitigate the effect of trade discrimination, similarly, the enlargement of the EEC and the negotiation of free trade areas between the remaining 'non-applicant' EFTA countries in 1971-72, has prompted a rather protectionist United States Administration to ask an

even more protectionist United States Congress for wide negotiating powers with which to breach, once more, the wall of economic discrimination in Europe. Furthermore, discriminatory trade bloc the size of the EEC proved to be an irresistable magnet for American direct investment, contributing to the integration of Western capital markets, business enterprises and know-how, and increasing the flow of transactions throughout the developed world. Because of these offsetting factors, the discriminatory impact of the EEC and EFTA was less noticeable than had been feared. Indeed, the average growth rate of the United States exports to Western Europe was maintained throughout the 1960s at about the same level as during the 1950s.(76) This suggests that the forces of spontaneous international integrational economic (or interdependence, if it is preferred) were a match for the forces of consciously pursued international economic integration. Indeed, since both these forces together with the increasing roles played by multi-national firms, tend towards a more efficient allocation of productive resources within their respective areas of integration, and since the larger area encompasses the smaller one, the trade-diversionary impact of the narrower integration area, fortunately has been much diminished.

CHAPTER IV

THE PRELIMINARY SURVEY: THE QUESTIONNAIRE

A random sample was chosen to represent the UK manufactures. The only consideration has been that it should consist of large, medium and small firms, classified according to number of employees. This was done according to UK Census of Production Classification: 1-499 represent small firms, 500 - 1999 represent medium firms and 2000 and over represent large firms.(*)

The response was very poor due to the circumstances which followed immediately after the despatch of the questionnaires, namely three days work per week, imposed by the then government due to the miners' strike. A second random sample of manufacturing industries was subsequently chosen, according to the same considerations as the first sample.

The total response of the first and the second samples represent 38.4% of the chosen manufacturers.

The questionnaire consists of 16 questions. Questions 1, 2, 3 and 5 were introductory questions for each firm to identify itself. The remainder of the 16 questions are listed below, with a summary of how the firms responded to each question.

Question 4

If your company had any manufacturing establishment(s) in the original

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(*) See Standard Industrial Classification (HMSO), 1968.

EEC countries before 1st January 1973, please indicate in which country and when it was started.

The countries were, Belgium, France, Holland, Italy, Luxembourg and West Germany; and the response called for Yes or No answer.

The responses to Q.4 were:

		Yes	No
(*)	L	15	10
	M	12	17
	S	3	79

These related to different starting dates and different EEC countries depending on whether the firms had manufacturing establishment(s) in the original six EEC countries before 1st January 1973.

Question 6

Did you trade before 1st January 1973 with one of the six EEC countries (before the enlargement of the Community by Britain, Denmark and Ireland)?

	Yes	No
L	17	-
M	18	6
S	65	19

(*) Here and after, the letters L, M and S, will represent the following: L = large-size manufactures, M = medium-size manufactures, and S = small-size manufactures.

If not, do you now? (after 1st January 1973):

Manufactures	Yes	No	No response
Large	0	0	-
Medium	1	4	1
Small	2	16	1

If yes, what did you expect the effect on your trade would be after the UK had joined the Community?

	Favourable	No change	Unfavourable
Large	10	6	1
Medium	14	4	-
Small	46	19	-

Question 7

Did your product carry full import duty in the original EEC countries prior to UK entry?

	Yes	No
Large	21	5
Medium	28	5
Small	65	8

If Yes, what do you expect the effect of tariff reduction would be in your sales volume?

	Increase of sales volume expected	Increase of sales volume not expected	Not known
L	21	5	-
M	28	5	-
S	56	8	3

For those expecting an increase in their sales volumes, the expectations were as follows:

	% of increase					
	0-5	5-10	11-15	16-20	21-25	over 25
L	1	8	4	1	1	3
M	- -	15	4	1	-	4
S	4	24	11	8	1	7

Question 8

If you already traded with the EEC countries (and if Britain had not joined the EEC) would you expect the volume of your trade to be unaffected by UK entry into the Community?

	Yes	No
Large	7	16
Medium	12	15
Small	28	36

Would you care to specify why?

The following are the answers received regarding the comment. They are quotations obtained from the executives interviewed.

Large-size firms reponses:

'Aerospace trade in W. Europe does not appear to have been greatly affected by entry into the Common Marekt, as aerospace manufacturers, including UK companies, have always operated on the basis of a worldwide market. Sales tend to be sensitive to factors such as collaborative links which existed long before entry, and political/technical/military factors, and in the case of civil sales particularly, the credit which the manufacturer can offer.'

'Nationalist feeling evident amongst German and, to a lesser extent, French manufacturers will soften if Britain is a member of the EEC. Evidence of fresh interest due to competitive price of British goods.'

'Trade would be expected to increase due to the abolition of tariffs.'

'We were already competing effectively. Tariff reduction tended only to improve margins.'

'Easing of tariff barriers.'

'Well established market prior to EEC entry. Competitive pressure not sufficiently price-based to be seriously affected by tariff reductions.'

'Reduction of Tariffs.'

'Duty rate of $\pm$ 20% made profitable growth difficult.'

'Lowering of tariff barriers.'

'There is more willingness to accept UK products.'

Medium size firms responses

'Sales in our product areas are dependant, in the main, upon government expenditure programs, and, to a lesser degree, expenditure in the private sector.'

'As manufacturers of medium to large plastics mouldings, the majority of our range is uneconomic to export.'

'Price competition.'

'Reduction in tariffs over five years should increase volume, but at a gradual rate.'

'We have been trading in two EEC countries through our subsidiary companies for many years prior to the EEC formation, and our market penetration is based on quality, our stocking policy, and the internal trading relationship with the subsidiaries.'

'Products sold at market price in relation to indigenous competition.'

'Because of our set-up with subsidiaries in EEC. Also types of products, markets, etc. and licencee connections.'

'German and French deposits will be more.'

'Duty was not the main barrier. The non-tariff barriers were a larger obstacle, for example it was not possible to get CCTV approved for components for French Post Office or military applications unless a member of EEC.'

'Tariff reductions, due to entry, have made our prices much more competitive and will continue to do so. We in turn may suffer in our Home Trade from EEC imports to this country, but we rather discount this, on present experience.'

'Our business activities embrace capital plant and equipment which are usually purchased on basis of technology involved.'

'Sales volume will not increase by more than 5%. Tariff changes - lower prices - slightly larger volume.'

'Our products are sold on technical merit and service. We have good agents, and our own sales organisation in Germany and Holland. Once initiated we find customers return automatically. We have been in Europe for 20 years.'

'Joining the EEC was a main justification for developing new major product range specifically for EEC market conditions.'

'Invisible trade barriers would be the main problem. By EEC Law one cannot discriminate against another member countries' products.'

Small size firms responses

'Before the entry, trade with EEC was due to the belief in UK products. Harmonisation of standard and specification helps, trade.

'EEC is largely the 'baby' of politicians. Industrialists are more interested in obtaining the right goods, of the right quality, at the right price, and at the right time. We make components for industry and the fact of our membership of the EEC has little effect on these points.'

'The duty reduction amounts to 1 to 2% p.a. over 5 years. The higher rate of inflation in UK vis a vis most EEC countries, more than outweighs this advantage.'

'EEC countries have their own standards of production against which we cannot compete.'

'Maybe in due course sales would improve as Europeans get used to buying British equipments. At present they are rather nationalistic.'

'Because we are a small company, operating in a small specialised market.'

'As soon as Rippon's (*) negotiations looked promising, doors on which we have been knocking for years started to open. It seemed we had become 'members of the club' and eligible for orders.'

'Too many conditions affected this issue. Floating pound, inflation, etc. The fact that the pound went down and tariff barriers were reduced by

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(*) G. Rippon, the British Chief Negotiator appointed by Mr. Heath's government (1970-74), to settle the terms of Britain's membership.

entry into EEC, obviously made British products very competitive. If neither had happened it could have been a very different picture.'

'Change in tariff rates and generally larger markets.'

'Because of the reduction of tariff over a period of several years it is negligible when compared with:

(a) devaluation of the pound by 15% after floating and subsequent devaluation by 19% from pre-floating rate.

(b) agreeably lower labour costs in UK compared with other EEC countries.

'Our entry into the EEC has long been awaited by other member countries who now expect trade to develop between our countries. A reduction in duty rate helps.'

'We make and sell unique processing machinery for limited specialised market. We have our little, if any, competitive position, and as a result, entry into EEC has had little effect on demand for our products.'

'European businessmen appear to be more cooperative than before British entry to EEC.'

'Because of the tariff reduction.'

'Because in the end everything comes down to offering the right products at the right price and at the right time, backed up by really aggressive marketing and policy flexibility.'

'On travelling abroad I have found that despite what newspapers and television say there is a very strong pro British feeling. Wherever I have been this feeling has been apparent and they are only too anxious to use British ideas and British merchandise and, conversely, sell their own ideas and merchandise. I would therefore expect a greater two-way flow of trade between Great Britain and other EEC countries.'

'We are in a fashion trade, and if we produce the right goods to suit a demand, we can always sell our products. The criteria is supply, both quantity and delivery time.'

'Tariff rate decrease makes our machinery more competitive.'

'We make highly complex microwave instruments which are only marginly affected by tariff or economics, whereas technological performance is of prime importance.'

'We have free agency coverage in the EEC countries and would have expected present levels of business to continue.'

'The larger the market, i.e. France, Italy and West Germany, is difficult markets for us owing to local competitions, and possibly nationalistic attitudes. The remaining markets were the old EFTA areas which already had low tariffs.'

'The pathetic position we are in now.'

'Specialist products.'

'Continuing nationalism.'

'We have been trading with customers in those countries already for years.'

'Tariff reductions.'

'Our own inability to produce sufficient to satisfy both home and overseas markets.'

'Dealing in a very specialised market we are one of only four or five world manufacturers and suppliers.'

'Good demand for our product in W. Germany, based on price and quality.'

'Our volume had been steadily increasing anyway. UK entry has made it possible to speed that growth up with the reduction in tariff barrier.'

'Because the type of products we produce are highly specialised, and no equivalent is available within the EEC countries.'

'Reduction of import duties, less sales resistance as a member country.'

'Tariffs proved no signficant obstacle to selling in EEC countries, however, the attitude of EEC countries towards British goods seems to be more favourable.'

'Our existing business would have remained with us, but our prospects

for expansion of European sales would have been severely curtailed.'

'Not determined at present as other factors, such as deliveries and exchange fluctuations, have large influence.'

'We build motor cruisers and yachts in a low volume. As it is a highcost luxury product, it has no boundaries.'

'Trade previously diminished with EEC countries. The recent development is due to tariff reduction.'

'The products supplied are of a nature that makes competition unlikely. Growth therefore can be expected, given stable trading conditions and is not likely to be affected by tariff changes. Product volume is low.'

'Special low volume products.'

'We feel that the import duty effect will be very small and the only possible advantage with our type of product would be a possible psychological advantage if we are members of the Community.'

'The reduction of import duties should in time affect our trade favourably.'

'The marginal savings in duties are not attractive enough to encourage our distributors to buy more, or reduce their selling price in order to increase sales.'

'In our case, we would expect only marginal benefits resulting from tariff reductions and generally closer ties between our country and others in EEC. Our product is virtually without competitors and therefore it is not 'price sensitive'.'

Question 9

To what extent has the 'floating rate' for the pound helped your trade in the EEC countries?

	Significantly	Marginally	Not at all
L	5	17	3
M	10	14	7
S	23	25	29

Question 10

Do you expect increased competition in UK from firms in the EEC countries who would expand their trade to UK following the tariff reductions, British adherence to the Community?

	Yes	No
L	16	9
M	25	8
S	47	37

If Yes, what do you expect the effect on your trade in the UK market would be?

	(a) No change	(b) Shifts in favour of competitors	Do not know
L	5	8	3
M	11	11	3
S	27	20	-

If (b), how are you meeting the new competition?

	(a) Cutting Price	(b) Improved Product	(c) Improved production methods	Other methods
L	1	5	1	1
M	2	9	-	-
S	-	11	9	-

Question 11

Do you intend to change your methods of marketing and distribution in the extended market?

	Yes	No
L	10	17
M	11	13
S	27	35

Question 12

Are you able to sell the same kind of product in the extended market?

	Yes	No
L	23	3
M	26	5
S	73	12

If not, do you intend to apply to your products

	(a) Minor change	(b) Major change	(c) or would it be a completely new product
L	1	1	1
M	3	1	1
S	6	3	3

Question 13

Do you intend to invest directly by locating a new plant in any of the EEC countries?

	Yes	No
L	5	19
M	8	23
S	11	73

Question 14

What economies of scale have you obtained or do you expect to obtain with the increased trade in the extended market?

	Applicable	Not applicable
L	9	10
M	19	7
S	53	24

N.B. The ranking of the forms of economies of scale will be explained when discussing the signficance of the answers of Q.14.

Question 15

What in your opinion, does the extended market offer your firm in terms of greater efficiency?

	Applicable	Not applicable
L	14	11
M	22	9
S	44	35

N.B. The ranking of the forms of efficiency will be explained when discussing the significance of the answers of Q.15.

Question 16

Have you any comments on the benefits/disadvantages of UK membership that have been evidenced so far as your firm is concerned?

The following are the comments received regarding the large, medium and small size firms.

Large-size firms' responses

'Being a multi-national company with sister companies in 'old' EEC countries, membership enabled the creation of a more uniform and more efficient base for trading within the Group. (e.g. Common laws, regulations)

'Greater customer interest and curiosity, generally improved transport facilities, more goodwill, and a positive attitude towards British manufacturers.'

'Not yet. We are producing new vehicle designs to suit new EEC Directives of safety and performance. These vehicles will not be available for marketing until beginning of 1976.'

'Better general business relationship.'

'Benefits from EEC entry are marginal and certainly do not offer major advantages. The falling value of the pound provides greater competitive advantages.'

'No real benefits or disadvantages evident so far. On the other hand, in our particular line of business, sales to EEC countries constitute quite a small proportion of our total export output.'

'Little apparent change due to the fact that the company was actively working within EEC markets prior to UK entry.'

'A lot of time wanted in commending draft directives from Brussels.'

'Establishment of a sales office distribution point in Germany has passed supply facilities of factories in UK, Italy, France and Spain. Volume orders attached from price conscious original equipment buyers hitherto buying domestically.'

'No major change - we are already exploiting the EEC market.'

'As Heavy Engineers the chief benefit has come from the floating of the pound, as most European work is tendered to the International Contractors who supply whole plants. Our prices are now competitive, whereas before the floating of the pound we were losing out to continental European suppliers.'

'Lower tariffs are clearly a help rather than a hindrance but due to the nature of our business and existing opportunities in Europe, EEC membership is not especially crucial to our expansion plans.'

'The psychological advantage of establishing a manufacturing operation in France is proving very important, although at this stage it is a plan rather than a reality. We have purchased a small modern factory and will expand it very substantially. Evidence of reliable deliveries to customers on the Continent is most important in view of Britain's poor reputation for reliable delivery due to strikes.'

'Since we have manufactured and sold our products for 13 years within EEC, we long ago made the necessary adjustments to products and market techniques. The reduction in tariffs is slightly to our advantage.'

'As a manufacturer of heavy capital goods we have the least to gain from EEC entry. The questions under 14 and 15 are really only applicable to consumer or light industries. Our product is very much a 'one off'.'

'The market is by no means a perfect free market operation as protectionism still exists on a large scale. The UK is probably losing out severely, as the 'six' have experience of protecting their own markets whilst appearing to be 'free'; the UK does not have this experience.'

Medium-size firms' responses

'EEC offers a wider market for consumer and consumer durables but, as far as capital plant is concerned, membership has not made all that difference in the structure or size of available market.'

'With all our UK markets suffering from the recession, the ability to sell in a larger market is invaluable. We are undoubtedly helped by the low level of the pound, but, even at a higher level, we should still be able to sell against the continental competitors.'

'Technical products such as ours are not significantly price sensitive and only small sales volume changes are to be expected.'

'Only the unusual ones about the opportunities of an enlarged market, and greater turnover of goods by lowering tariff barriers.'

'The benefits are mainly in breaking down non-tariff barriers. Obviously tariff reductions help, but these are not the most significant factor. It still remains for companies to produce the particular version of a product to suit a particular market.'

'A significant reduction in the earlier attitudes towards segregating 'Home' and 'Export' customers and real progress towards equal importance being attached to the market as a whole.'

'No factual evidence so far.'

'No apparent disadvantages, but little discernible benefits.'

'UK membership has brought no disadvantages but, as far as we are concerned, we expect little advantage as we were previously operating extensively in the EEC and the resulting reductions in tariffs are not significant.'

'No significant changes.'

'95% of our product is sold to countries other than Europe. The EEC does not really affect us in any immediate or obvious way.'

'We are producers of raw material. We have not had, in the past, any tariffs against us and have, therefore, a substantial European trade. Joining the EEC gave us no direct benefit, as far as increased trade was concerned, although by being in the EEC, we can operate on equal terms. In particular, with the easing of the exchange controls we have been able to buy ourselves into European markets, and we therefore bought French and German clay mines. We are now an integrated producer of

European clays, which gives us a growing advantage. We wholeheartedly support being in the Common Market.'

'Lower import tariffs have made, and will continue to make, our product more competitive in EEC markets, and we are now obtaining significant increases in sales.'

'We are manufacturers of specialized d.c. and a.c. motors and motor generators, and the great majority of our trade is with the electric vehicle manufacturers and plant manufacturers. Our trade with the EEC is therefore, in the main, carried out indirectly through them.'

'Export to our new 'home' market now far more complicated - massive paper work.'

'Our more profitable and traditionally loyal markets think we have betrayed them. We are fortunately not caught up in the 'general euphoria' that the EEC is the answer to all the problems. Nationalistic restrictive trade barriers/practices in the food business still exist in the EEC, with the UK not putting up a firm enough fight at governmental level.'

'The low exchange rate of sterling has, we believe, brought in business to other UK companies, creating a demand on our suppliers, resulting in very extended deliveries, especially in casting and steel products. It would appear at present that, generally, in special areas, British industry is unable to cope with demand. Greater investment in plant is the only probable solution.'

'Our relationship with an existing international group greatly helps. By joining the 'Club', and actively showing we have the intent to produce the right products, customers are starting to believe that the UK might actually mean business at last.'

'Generally higher price levels in Europe, exports more profitable than UK sales. Broadening the company's marketing base.'

'Barriers still exist, but these are really just chauvinism. Although easier to export our own home market is less protected. It is necessary to improve one's service and keep the home customers happy.'

'To date the floating of the £ has been rather more important to us than the EEC membership. EEC may force us to specialise rather more than we would previously have wished.'

Small-size firms' responses

'It will be a very long time before trade with the EEC is 'as easy as selling products in Wales'.

'The Market membership is beneficial to us, in that we are now readily accepted in Europe as a reliable source of supply. The devaluation of sterling resulting from the floating rate, has helped our trade, which we believe would have been favourable even with a fixed rate.'

'Our product needs considerable application time, therefore, as yet we cannot distinguish accurately enough any trend.'

'Benefits very limited. Technically advanced competition exists in most EEC countries. Nevertheless benefits to our competitors are not very great even now, owing to some extent to the floating of the £ sterling. '

'Gradually rising of basic commodity prices in UK to EEC levels.'

'We have not been affected by entry into the EEC as we do still not compete with the manufacturers in the individual countries. Our sales are already taking our full production and we are not prepared to sell at reduced prices.'

'We have commenced selling in Holland and Germany where we could not sell before joining the EEC.'

'Insufficient experience.'

'Our products are mainly used as part of a larger finished article. While we know that our customers import a considerable amount of goods in which our product is used, we have no means of telling what effect the introduction of the market has had on them. We can only say that for the past year we have had a very full order book, and if we had had the labour and production capacity, we would have had a great many more orders.'

'Our main product is electrical transformers which are heavy for their size compared with most electrical apparatus. The cost of transport makes them uncompetitive with those locally made.'

'None. Our business is electric transformers manufacture, sold to British companies to incorporate in their own equipments. No doubt some of these go to the EEC, but how many is not known.'

'Reduced import duty permits us to get orders now which we could not get before from our customers in Europe. Also we can import to North and South America more goods with European parts as we pay less duty on our imports.'

'Not much in the short-term. The market will benefit the larger companies, as this is the age of international organisations.'

'Our turnover is escalating rapidly as a result of increased sales in France, Germany and Holland in particular. Additionally, we have secured substantial benefits by cross licensing the simpler designs so that ours are made in Germany, and we make theirs here. At present, making profits has become easier, and we are petrified of the risk that Britain will be expelled.'

'As a company we have been export orientated for many years, entry into EEC and the associated tariff cuts obviously helps us be more competitive. We should like to see the EEC run on a free trade basis with far less emphasis on the political unity and policy sharing principles.'

'Beneficial up to now.'

'The disadvantages are negligible. The advantages are marginal, e.g. slightly lower prices for the items purchased from Germany because of special expertese there. When the tariffs are reduced to zero, we expect less paper-work and delays in Customs formalities for exports to EEC countries.'

'As a result of exhibiting at the Frankfurt Fair for the past eleven years, we consider that EEC countries are now considering UK pianos more seriously, But this is probably due to an uprise in world demand for pianos.'

'Benefits will occur over a much longer period. No effect felt up to the present.'

'We manufacture a very specialised product which has a limited market, a market which we can only supply and not manipulate. What we have found is the speed at which goods and raw materials are available from EEC countries although they are more expensive.'

'We exported 85% of our output before entry to EEC and we already had sales branches and agencies established in W. Europe. We have noticed little or no advantage - in any respect - from entry to EEC.'

'We believe there has been a marginal benefit only, in our case, resulting from tariff reductions and generally closer ties between our country and others in the EEC. Our product is virtually without competitors and, therefore, it is not 'price sensitive'.'

'We have so far increased trade, or are about to increase trade with Germany (West), Denmark, Belgium, France and Luxemburg. Trade with USA, South Africa and Canada is comparatively static, but is expected to increase, trade with New Zealand has decreased. We cannot as yet make an impact on the Australian market.'

'In short term we benefit from the membership, but not to the extent that we originally anticipated. In the long term, and after the free movement of capital is established, we shall have to rethink seriously the policy and projects of our company, and there are some doubts whether we shall ever be able to make the best of the membership, unless the Government helps with some sort of financial assistance or gains alternative terms.'

'There are no real tangible benefits as yet visible. As an exporting company (80% of our production) and surely, as an exporting nation also, we have to adapt to each individual market requirements purely on its merits.'

'I think we joined the Common Market ten years too late to get any real benefits economically, and membership now is proving tremendously adverse to our national balance of payments situation. Having said that, I believe we should stay in, but there is a major and pressing case for a new look at the terms of membership.'

'We export over 90% of our products to 53 countries and have been doing well in the EEC for some years. Therefore, direct effect on our company is minimal. However, in general terms membership of UK is seen as advantageous.'

'I can only see good coming from the enlarged market and I am very glad to say that my company is doing everything they can to take advantage of this extended market.'

'We have the opportunity of greatest sales but are held back by the shortage of labour, making long delivery dates.'

'Greatest interest in our products within EEC.'

'Evidence to date indicates that the long term advantages of entry into the EEC, as far as this firm is concerned, are considerable.'

'UK firms are happy to consider French and German equipment. The reverse is not always the case, even though we are often offering a better deal.'

'Too difficult to differentiate in the confused situation of international economics and politics with relative money values changing. Without being able to be factual, the advantages seem slightly greater than the disadvantages.'

'Significant increase in enquiries has been in evidence since the entry into EEC and the floating pound, showing that we are becoming more competitive in Europe.'

'The reduced tariffs in the original six EEC countries, obviously has benefits for us, but this is partially offset by increased competitions at home. As far as the old EFTA countries are concerned, there will be little change.'

'A disadvantage is that export paper work has been considerably increased since our joining the EEC.'

'Rising price of raw material.'

'EEC countries are more inclined to purchase British goods since membership.'

'We are one of three companies supply hardware to the container industry. The entry into the Common Market by UK does not affect our markets. 80% of our businessis export and will remain so.'

'As will be seen, there has been no apparent benefits or disadvantages so far, but we are optimistic.'

'There is no evidence of any direct effect so far. We may have benefited indirectly by increasing our sales to customers who themselves have exported more to EEC.'

'With such high taxation on such low profit, funds are not available in UK companies to cover the cost of mounting a thorough EEC marketing exercise or in bringing equipment up to date. As the opposite applies in Europe there is a real danger that we shall suffer nothing but disadvantages, especially noting the nationalistic approach to buying experienced by UK companies on the Continent.'

'By far the bulk of our business is within the United Kingdom, and we are therefore not qualified to comment on the advantages or the disadvantages of our membership in the EEC.'

Statistical Analysis:

Applying the 'tetrachoric correlation' statistical method to get the coefficient between Question 6 and Question 7, the following are the results obtained for the computed γ (*):

(*) See Appendix I for the tables used and the computing of 'γ'.

Large-size manufacturers:	.93
Medium-size manufacturers:	.93
Small-size manufacturers:	.65
The entire population:	.78

Analysis of the responses

(1) 55% of the manufactures expected a favourable effect on their trade due to the EEC membership. 27% of the large-size firms thought in the same line. The percentage regarding the medium and small size firms are 56% and 52% respectively.

(2) 97% of the respondents' products carried full import duty in the original six EEC countries, prior to Britain's entry. This represents 81%, 82% and 75% of the large, medium and small size firms respectively.

(3) Increased trade because of the tariffs reduction was expected by 71% of the respondents. This represents 81% of the large-size firms, 82% of the medium-size firms and 64% of the small-size firms.

(4) Those who traded with one or more of the EEC countries before the entry constitute 20% of the respondents, 57% of the large-size, 35% of the medium-size and 4% of the small-size manufacturers.

Of these 32% would expect the volume of their trade to be unaffected by the UK entry into the Community.

The percentages are 26% in the large-size, 35% in the medium-size and 32% in the small-size firms.

(5) As far as competition is concerned:

(i) 60% of the manufacturers expect increased competition in UK from firms in the EEC countries who would expand their trade to the UK following the tariff reduction and Britain's adherence to the Community. (Of those 62% large-size firms, 74% medium-size firms and 54% small-size firms.)

(ii) 49% of all firms expect no change in the volume of their trade in the UK because of the above competition. (31%, 44% and 57% large, medium and small size firms respectively.)

(iii) However, 44% expect the effect of this competition would be a shift in favour of competitors. (50% large-size firms, 44% medium-size firms, and 43% small-size firms.)

(iv) Policies planned to meet the new competition were cutting prices, improved products, and improved production methods.

(6) 38% of the manufacturers intend to change their methods of marketing and distribution in the extended market and 44% will stick to theirs (38%, 56% and 31% large, medium and small size firms that will change respectively, and 65%, 38% and 40% would not.)

(7) Most of the manufacturers (83%) expect to be able to sell the same kind of product in the extended market. The rest intend to apply either major or minor changes to their products. 3% of the respondents will produce a completely new product that resemble those of the competitors in the extended market.

(8) 16% of the firms intend to explore the new market by investing directly in a new plant in one or more of the EEC countries.

(9) 55% of the manufacturers expect to obtain economies of scale with the increased trade in the extended market. (34%, 60%, 61%, large, medium and small-size firms respectively.)

(10) 54% of the manufacturers expect the extended market to offer them greater efficiency. (53%, 65% and 51% large, medium and small-size firms respectively.)

Summary of the findings

(a) Regarding large-size firms

(1) Most of the sample which responded to the questionaire expect an increase of their sales volume after Britain's entry into the EEC.

(2) A small proportion fears shifts in favour of their competitors in the UK market.

(3) Small numbers intend to invest directly in one or more of the EEC countries.

(4) More than half of the respondents expect that the extended market will offer them greater efficiency.

(5) Regarding economies of scale, a reasonable number expect to obtain one sort or another of its advantages.

(6) For the multi-national companies with affiliated companies in 'old' EEC countries, membership would enable them to create a more uniform and harmonious base for trading within the group. Others expected better relationship.

(7) Some do not see any real benefits or disadvantages so far as their sales to the other EEC countries constitute quite a small proportion of their total exported output.

(8) The 'correlation' between the responses in Q6 and in Q7 were high and positive; that implies a favourable effect on the trade of those that traded in the EEC market before the entry.

(b) Regarding the medium-size firms:

(1) Most of the sample responded to the questionnaire expect an increase in their sales volume.

(2) The same respondents expect increased competition in UK from firms in the EEC countries.

(3) Some intend to invest directly in one or more of the EEC countries.

(4) A majority of the respondents expect to obtain economies of scale due to the increased trade with the EEC countries.

(5) The majority expect greater efficiency because of the increasing of sales in the extended market.

(6) The respondents who find it beneficial, expect increase of trade because of tariff reduction.

(7) Some see no factual evidence of advantages, or of any significant changes yet.

(8) Those who are already trading in the EEC see would-be benefits from operating on equal terms.

(9) Manufacturers who have a great proportion of their trade in export do not think joining the EEC would affect their trade.

(10) Some see that the floating of the pound has been rather more important to them than the EEC.

(11) The relation between the entry and the expectation of favourable trade is highly correlated.

(c) Regarding the small-size firms

(1) The majority of the respondents expect an increase in their sales volume due to the tariff reduction.

(2) Considerable numbers expect that competition in the UK market will increase.

(3) Most of the respondents would be able to sell the same kind of product without any modification, in the extended market.

(4) A small proportion intend to invest directly in the new market by locating a new plant in any of the EEC countries.

(5) Greater efficiency and economies of scale are expected due to the expected trade increase.

(6) Lack of capacity and resources to meet the demand in the extended market are obstacles to trade.

(7) Some fear that the enlarged market will benefit only the larger companies.

(8) Expected speed of deliveries of raw materials from the rest of the EEC countries, after entry, would help a more controlled flow of production, so it would facilitate meeting deliveries in time.

As the above are only a brief of findings, mentioned as interpretations to the analysis of responses, in Chapter VIII we will present a comprehensive results and conclusions of the analysis of the questionnaire.

CHAPTER V

THE CASE STUDIES: PART ONE

In 1974, a random sample was taken of British based manufacturing industries, as indicated in Chapter IV. The primary consideration in choosing the sample was that it should contain large, medium and small firms. It could then take into account the factors which govern the structure of each category which would influence attitudes and plans towards penetration of the EEC market after Britain's accession.

The response and the results of the elementary survey are covered in Chapter IV.

In 1976, the study tried to assess the effect of joining the EEC on a sample of British manufacturing firms, and whenever possible to assess what actually happened to the expectations which the earlier questionnaire had revealed.

This is the subject matter of this chapter and Chapter VI, the analysis - in both chapters - is divided into the following sections.

First:	Approaches to the Choice of the Case Studies
Second:	Data Collection - Case Studies
Third:	Presentation of the Case Studies
Fourth:	Factor Analysis
Fifth:	Analaysis of the Case Studies.

First: Approaches to the Choice of the Case Studies

(A) The immediate approach would be to consider as case studies some manufacturing firms who responded to the preliminary questionnaire so that a direct comparison can be made between their expectations in 1974 and what had materialized in 1976, and explain the deviations, if any.

(B) The second was to approach some of the manufacturing firms that have been awarded the 'Queen's Award to Industry', for their achievements in export. Such firms had achieved a noteworthy performance in exporting and might have taken the opportunity offered to them by the extension of the UK market to include the EEC, or to increase trade if they had already traded there before the entry. Their experiences and performance would be worth investigation.

(C) The third approach would be to analyse the UK Overseas Trade Statistics to decide which section and which division in a particular section, has shown an increase in the trade with the EEC in the years 1973-1975. Then from these, we choose as case studies some firms which trade in goods which fall in those sections mentioned above. Those firms would be representative case studies.(*)

It is appropriate to mention that the sections considered 5 to 8, classified according to Standard International Trade Classifications (SITC), they represent manufacturing industries. Sections 1 to 4 have been excluded, as they represent mainly the agriculture sector, which is outside the scope of our study.

Given the above approaches, and taking into account the willingness of executives of many British manufacturing industries to cooperate, the actual sample reported in this study is a compromise between the three approaches mentioned.

Taking the first approach, manufacturing industries which responded to the pilot questionnaire, the companies that have been considered are:

(*) Appendix II indicates the sections considered and the trade figures of the related divisions.

1. D.R.G. Flexible Packaging, Bristol
2. Mars Confectionery Division of Mars Ltd., Slough.
3. Compair Industrial Ltd., High Wycombe, Bucks.
4. S.K.F. (UK) Ltd., Luton, Beds.
5. James Clark and Eaton Ltd., Bracknell, Berks.
6. Ferodo Ltd., Stockport, Cheshire.
7. Rolls-Royce (1971) Ltd., Filton, Bristol.
8. International Rectifiers, Oxted, Surrey.
9. Fodens Ltd., Sandbach, Cheshire.
10. Pasolds Ltd., Langley, Berks.
11. Welton Bag Co. Ltd., Midsomer Norton, Bath.
12. Redcliffe Inks, Yate, Bristol.

In regard to the second approach, the manufacturing industries awarded the Queen's Award to Industry for their achievements in export, the following are companies that offered materials to the case studies:

1. The Associated Octel Company, London
2. Gala Cosmetic International Ltd., Surbiton, Surrey.
3. Dexion-Comino International Ltd., London.
4. Ferodo Ltd., Chapel-en-le-Frith, Stockport, Cheshire.
5. CAM Gears Ltd., Hitchen, Herts.
6. Mars Confectionery Division of Mars Ltd., Slough.

Most of the case studies,(*) allow for the third approach, trading in goods which fall in one division or another of the UK overseas trade, that showed an increase in foreign trade in the years 1973-1975.

(*) In Appendix 4 is a complete list of the British based manufacturing firms interviewed as case studies.

The choice of the case studies cuts across other relative classifications that will be significant to the analysis, namely:

1. Size of firm; large, medium and small
2. Previous experience, as opposed to no experience, of exporting to the EEC.
3. Type of product, capital and consumer goods.

Second: Data Collection - Case Studies.

The structure of the questions put to the executives interviewed consist of four parts:

(a) General background, which would offer familiarity with the firm, who owns it, its legal status, the group - if any - it belongs to, historical background, and the activities it is engaged in.

(B) The structure of the firm - its organisation, pricing policy, sales and marketing functions, and R & D. We seek by such information to establish the changes that have taken place regarding any policies as a requirement of penetrating the EEC Market.

(C) The assessment of the pilot survey in order to follow the deviations between what were forecast in 1974 and what actually took place in 1976.

(D) Clarification of the advantages and disadvantages that firms experienced, of Britain's entry into the EEC, the obstacles it faced and the benefits gained.

Each company has been asked, also, to indicate forms of economies of scale that it has experienced, together with any causes of increased efficiency as a result of increasing their sales to the EEC countries. It was intended, in the analysis that follows, to relate the results of such information with such related factors as:

- The extent of the utilisation of the company's capacity,
- The consequent effect on the unit costs,

and hence their effect on the competitive position of the company in the EEC Market.

Third: Presentation of the Case Studies

Regarding the presentation of the case studies, Volume 2 contains the case studies based on data collected from the listed firms.(*)

The theme of the presentation of the collected data follows as a model of the central elements in a firm's behaviour. Although each manufacturing unit approached differs from the others in its legal status, financing, organization and decision procedures, ownership, competition conditions and many other characteristics(**) there are a number of similarities in their economic behaviour which are considerably more important than these differences. All need to obtain finance, all need, with a varying relative percentage, inputs of factors of production; and all have to determine a selling price for their products or services.

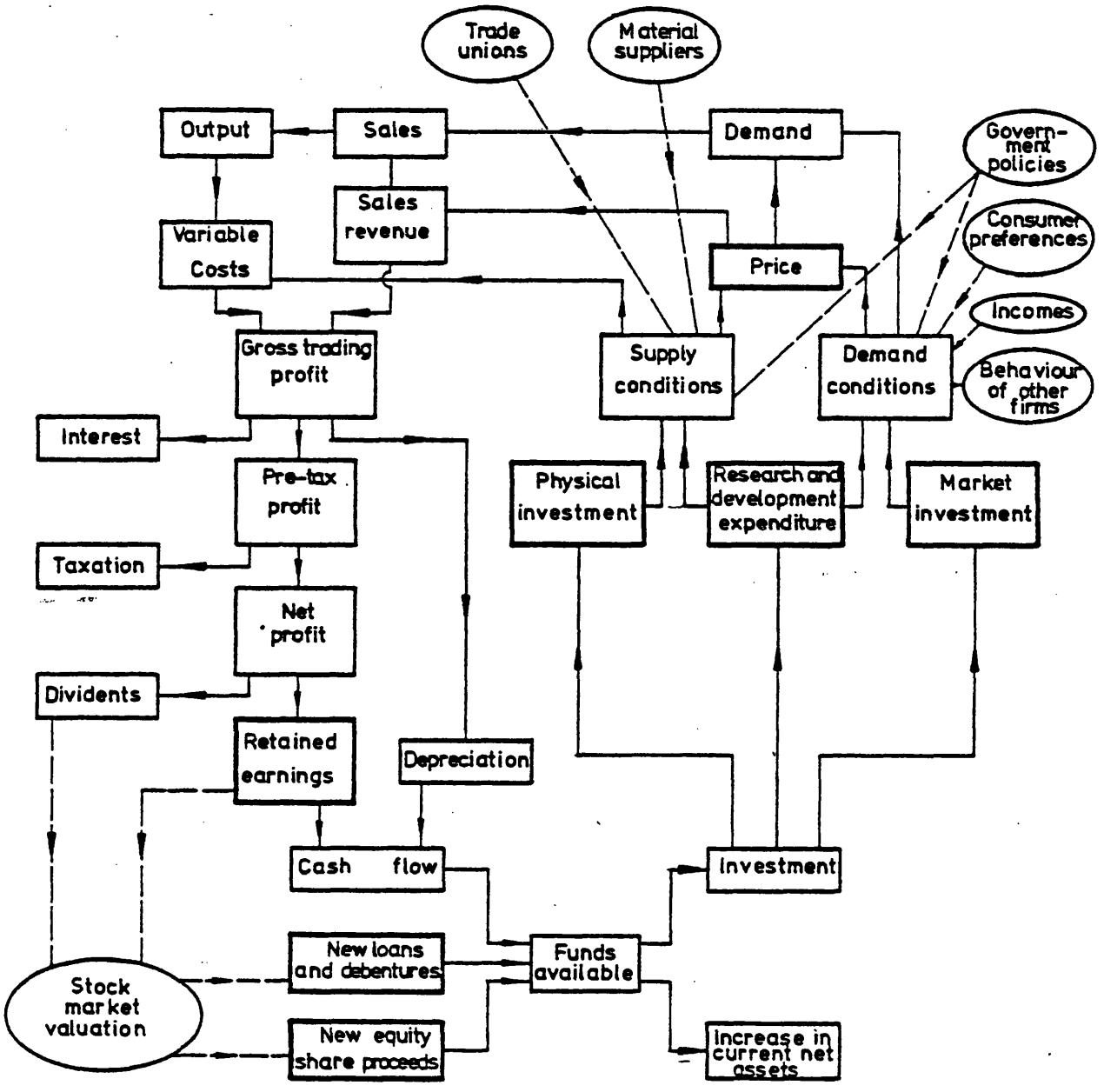
(*) See Appendix 4.

(**) At the same time, many differences may be seen in the impact of both the prevailing economic conditions and Government policy.

It is with those sorts of common activities that we have been concerned while collecting the data and presenting it, over and above the data relating to the firm's performance in the EEC.

Figure V-1 sets out a possible framework of the typical manufacturing unit. It highlights the firm's internal operations and the external influences upon them. It is an indication of the points covered in the presentation of data, but it does not constitute a model for use in the analysis of data. This follows other patterns, as we will indicate below. Needless to say, reaching the findings of the case studies depends on the data collected according to that framework.

Figure VI: MODEL OF THE CENTRAL ELEMENTS IN A FIRM'S BEHAVIOUR "THE FIRM'S INTERNAL OPERATIONS AND THE EXTERNAL INFLUENCES UPON THEM"



Source: D.J. Morris, The Behaviour of firms, OUP, 1977. (with minor adjustments)

In editing the case studies, the main headings under which the data has been presented are as follows:

- The firm's background
- The size of the firm
- The structure of the organization
- Pricing, profitability, investment, R & D and growth policies.
- Market structure and competition conditions
- Special features
- Efficiency and economies of scale
- Plans for penetrating the EEC market
- Advantages and disadvantages to the firm of Britain's entry into the EEC
- Expectations of the firm in the enlarged market
- Comparison between expectation prior to Britain's accession to the EEC, and what actually took place.
- The effect of the performance of Britain's economy in the years 1973-1975, the first three years of entry into the EEC, on the firm's performance in the EEC market.

Each firm provided, where possible,(*) trade figures which covered its trade with the EEC and those with the rest of the world, in the years 1973-1975.

(*) The limitations of some of the data collected from some firms is understandable according to business practices. In the meantime, it ought to be mentioned that the research in hand had not been possible without the cooperation of the firms' executives.

Fourth: Factor analysis

The analysis of the case studies could involve several approaches and many variables. The importance of its findings will depend on the approach(es) followed, and on the number of variables analysed.

As it is the cornerstone of the research, we believe that we should not confine ourselves to any one approach, or to very specific variables. We believe, that we should explore the analysis along many avenues.

Those approaches and those variables which we will consider as factor analysis to the case studies, are:

I. Qualitative (descriptive) Approach

Under such approach we would consider the following variables, as expressed by the executives we interviewed:

1. Advantages and disadvantages to the firms of Britain's accession to the EEC.

2. Tariff elimination and its effect.

3. Other obstacles to entry firms may have experienced.

4. Preparations firms may have undertaken to penetrate the EEC market and new policies they may have executed as a need of adaptation to the enlarged market, e.g. in pricing, marketing, products and organisation.

5. Competition conditions relating to the extended market; those considered as common conditions, those relating to certain industries and those relating to firms specifically.

(6) Efficiency and/or forms of economies of scale firms may possess, that enable them to compete in the enlarged marked.

7. The effect of Britain's economy in the years 1973-1975 on the firm's performances, including the effect of the floating of the pound and, consequently, its devaluation.

8. General Comments, either by the firms that have been interviewed, or by those firms who refused to participate in the study.

II: Quantitative Approach

Here we consider the results the firms achieved in trade in the years 1973-1975. The analysis is as follows:

A. Analysis of the trade the firms achieved with the other EEC countries in the years 1973-1975.

B. Comparison between the results achieved in A for each firm; with the trade figures achieved in the same period by the industry to which it belongs.

C. Relating the analysis in A and B to the overall trade performance of the UK with the rest of EEC, in the same period.

III Comparative Approach

Comparison of original expectations, actual results, and reasons for divergence, where given, or interpreted by ourselves.

IV Grouped Approach

Under this approach, we group the case studies in the categories indicated below in order to assess the effect of entry on each group.

The basic principle in grouping them is that the firms in a group share a major factor, e.g. size, that influences their performance in the market.

The following is the line of analysis involved:

A. Size of the firm

Large, medium and small firms: the determining factor here is the size of the firm. The analysis will follow the performance of each size.

B. Special features

Position of firms that possess special features which govern their trade practices. The grouping and the analysis depend here on the firms' internal or external advantages.

C. Product market

Industrial product firms and those of consumer products. The effective factor here is the type of market of the product.

Fifth: Analysis of the Case Studies

I The qualitative (descriptive) approach

The following is an account of how the case study firms evaluate the effect of entry on their performance with regard to each of the factors mentioned below:

1. Advantages and disadvantages, relating to the firm, of Britain's accession to the EEC

A. Advantages other than elimination of tariffs and their effect on trade

- Benefits exist in terms of the different legislation issued by different EEC Commission directives that encouraged and facilitated trade with other member states.

- Reshaping of the European operations took place as a result of the European attitudes that the companies adopted.

- Improvements on methods of production due to the desire to adapt certain standards acceptable to some EEC markets.

- The help to trade with the associated EEC countries due to the special agreements the EEC have with them. However, it would be difficult to specify its effect.

- Distribution was rationalised for a company which has plants in other EEC countries, as it no longer needed to do cross haul distribution, e.g. from Germany to Benelux countries, and from UK to East Europe.

- Benefits in terms of a greater acceptance by European companies. There is difference in attitude since Britain's entry and business

relationships are much better than they were.

- Better relationships and attitudes with and to the managements of subsidiaries in the other EEC states, containing different nationals.

- Firms with a huge initial product innovation cost which could not be born alone, e.g. aerospace products, would benefit from joining the EEC. They would have a greater impetus towards more collaboration with EEC partners.

- Benefits experienced as a result of the stand taken by the Commission of the EEC to take control over budgeting common R & D programmes for some technological industries.

- Companies in Britain have an equal say within the Commission, so they can influence events affecting their trade practices.

- Ability to transfer products more easily between affiliated companies in the EEC.

- Producers of components and semi-products, have been helped in the rest of the world by gaining prestige through participation and association with other EEC companies.

- In the clothing industry, as the UK usually adopts the European fashion and taste, relations with EEC companies means the ability to prepare early for likely changes in the UK market.

- It creates a situation that makes UK companies more professional than they have been in the past. For example, it drives management to appoint the right sort of salesmen and distributors and to give the right after-sales service. This would lead to their being competitive.

B. Disadvantages

- Immediate funds needed, to change lines of production in order to adapt production to the EEC market requirements. This can constitute an obstacle, in the short run, in terms of the availability of finance to undertake the necessary investment programmes. The time wasted till funds are ready is a constraint factor.

- Being a UK based manufacturer, a firm may be engaged in meeting the home market requirements which is more interested in low cost components, rather than sophisticated quality. This attitude will affect their R & D programme and leave them behind their EEC competitors.

- Membership helped in increasing competition in the UK market as it enabled, say the Japanese, to set up manufacturing facilities in the EEC countries and trading freely within it. A Japanese factory in Germany found it easier to trade in the UK because of the EEC regulations, than to do so from plant in Japan.

- Production costs, and hence prices, increased as a result of CAP policy. For a confectionery manufacturer the changes that the Common Agricultural Policy brought about in the prices of their main raw materials has had the greatest impact on them, as entry into the EEC offered them reduced opportunities to buy all varieties of raw materials. Transition to EEC prices overshadowed the general price inflation in the UK.

- Excessive bureaucracy on the part of the Brussels Commission, in terms of the harmonisation of consumer legislation which is being introduced. Again for the above confectionery company a

less efficient method of operation and marketing is imposed on them due to the changes required by an EEC Commission directive. This meant changes regarding the amount of information that has to be provided on wrappers of products, changes to standard sizes for certain products, and changes affecting the ingredients of the products. This was also experienced by a cosmetic manufacturer especially in the labelling of the ingredients on products.

- The burden of the documentation required by the Commission and the extra work it constitutes.

- Nationalistic attitudes, experienced from some member states, as a major setback to any potential advantages. A firm emphasized this phenomenon by pointing out that the EEC is a Common market with a lot of uncommon elements.

- The problems arising from standardization legislation, in production, marketing, and sales.

2. Tariff elimination and its effect

Elimination of tariffs between Britain and the other member states started to take place in 1973. From then a gradual reduction in Customs duties took place until it reached a 'zero' rate in July 1977.

The following is an account of how the firms interviewed assessed the impact of this factor on their trade:

- For some engineering firms, where the tariffs were around 12%, its gradual elimination helped them to improve their EEC market share. However it did not motivate them to start trading there; they would have been trading there, irrespective of the tariff elimination.

- A firm attributed the movements in their trade with the EEC more to the trade cycle fluctuations than to tariff elimination.

- Other firms could not quantify their sales increase related to tariff elimination. One firm was undecided whether to attribute its sales increase to the investment programme they had undertaken in some EEC states or to the elimination of tariffs. However, they realize that elimination of tariffs made it easier for them to compete and to penetrate the market than if their prices had been higher to the extent by which duty had been reduced.

- The effect of tariff elimination, as experienced by a firm, was not to increase of trade to the EEC market, but made a significant amount of inter-company trade, with its affiliates in the EEC cheaper and easier. Another firm considered the effect on movements of goods between sister companies as only a hedge against strained capacity if and when the need arose. For them, elimination of the tariff has facilitated that process.

- One company does not think that the relative magnitude of tariff elimination will have any considerable change on exports for the following reasons:

  A. The level of tariff protection was not high.

  B. Tariffs are being eliminated over several years, so the changes from one year to another are not significant. The company believes that it is a gradual process of mutual adaptation; for both Britain and the other members; to a new situation.

- As far as paper and board manufacturers are concerned, deciding the effect of tariff elimination is a complex issue as a specific grade of paper and board has to be identified and then the effect on this one grade has to be measured which is a complicated process. Again, the six EEC founder members have had a common external tariff for paper and board which had been harmonised by the time Britain joined the Community, whereas the UK tariff structure, which developed over many years to be consistent with Britain's trade policy, is different. Hence the difference in the relative tariff protection of various grades of paper and board is not identical between Britain and the six.

- For a company that is owned by the so-called seven sisters (oil companies), and that trades with them whether they are in the EEC market, North America or ROW, tariff elimination is not an affecting factor on its trade.

- For products produced at a specific design, for export for a highly specific purpose, and at cost agreed in, tariff elimination is not a factor to be considered.

- Tariff elimination as a single factor affecting sales increases was difficult to identify. For a car components company the other noticeable contributive factors were:

  A. The efforts of their sales office in Germany.

  B. The know-how they apply to their products which gives them strength over the competitors in the other EEC states.

- The effect of tariff elimination has been offset by the devaluation of the pound.

- Organizational structure for operations in the EEC market was the factor affecting sales, rather than tariff elimination, although the latter helped in making exports cheaper.

- For a company who traded in the EEC market before Britain's entry, tariff elimination probably assisted the existing business and allowed it to grow more rapidly than it would have done. Their business in the EEC had steadily grown because they have had a product in great demand, and because of the amount of effort they employed there.

- A firm that has not traded in the EEC market after Britain's entry because of the strain on capacity, could not assess the effect of the reduction in tariff. However, they stated that they have the capability in their organisational structure to penetrate the enlarged market, if they could meet their investment programmes.

- A consumer product firm, sees the gradual reductions of tariffs as too small to notice, 1.2% in 1973, a point which was raised by another company, above. But this firm recalled the reduction in tariff that took place as a result of the Kennedy round which they had benefited from.

- For a car components company, assessing the effect of tariff elimination on their trade was difficult to define easily. That is because their products, vehicle brakes, have to wait for a new vehicle model to be developed, as it is necessary to get involved at, what they term, the prototype stage. There is no direct exporting, so for them tariff elimination was not a decisive factor for sales increase.

- Inflation in Britain, with its high rate in 1973-75 and its consequent effect on the cost of production, diminished the effects of tariff reduction.

- For the car industry and their suppliers, tariff reduction does not make much difference, as 10% more or less on the price of a particular component is insignificant in comparison with reliability and quality.

3. Other obstacles to entry firms may have experienced

The following are some obstacles to trade in the EEC market which different executives interviewed stated as barriers to entry, other than tariffs:

- The main products they produce have been standardised according to the requirements of the German and the French markets. These were stricter than the standards required by the British Code. This, for them, was expensive and tiresome process.

- The German experience for some units is evidence of a 'technical obstacle' as hindrance to trade. The Germans had their standards institutes, their highly detailed specifications code, which they would add to or alter, so making it difficult for British based manufacturing firms to penetrate their market. The same applies to France which is the second biggest market, after Germany, for British goods.

- Again regarding the German market, an engineering firm experienced the need to manufacture parts of their final product in

Germany in order to obtain the necessary German Certificate of Standards. This, they found an expensive process because the parts could be manufactured in the UK at less cost. This also constitutes a shift of resources from the UK to Germany, based only on finding a way over the obstacle.

- One manufacturing unit considered as an obstacle to entry the inability to find a suitable distributor in the EEC who could handle sales, after-sales service, and who would be acceptable to local people.

- Products, in some instances, have to be altered by applying changes in order to overcome the technical barriers which exist in some EEC countries, e.g. noise standards.

- Effect of nationalistic feelings on the attitudes of other EEC firms towards British firms.

- A major British firm considers the EEC as a collection of national markets on the move to become a common market. Barriers to entry exist in national laws affecting the company decisions to penetrate any of the member states' markets. They gave an example relating to the decision to invest, some countries encourage direct investment, others prefer national solutions, still others give facilities for setting up production plants. Companies need flexible capabilities in order to be able to meet those different policies.

- The additional paper-work required by the Commission created a burden which is not easy to carry for some firms, especially small-size firms.

- Organisational changes that were required because of the entry were considered an obstacle, as they needed staff increases which were beyond the Company's ability.

- Language barriers are a difficulty, especially with the French who insist on sending their documentation in their language. Also many European languages make it difficult to put across a technical subject.

- Costly product harmonisation programmes to meet the market requirements, e.g. metrics, applications.

- Obstacles of national requirements on health, safety and consumer protection. As experienced by firms, the most demanding country is Germany, and the least, Holland.

- The reputation in Europe of some British manufacturers' bad deliveries and inadequate after-sales services are a hindrance to trade. These, together with strikes in Britain were mentioned by some firms as reasons for that reputation. It all amounts to an underlying worry on the part of Continental buyers are British firms really going to be able to deliver consistently in time?

- Different taxation systems and rates in the EEC countries are barriers to entry. For a cosmetic firm, not only different VAT rates, but an added luxury tax, affects their trade.

- Not having the right equipment at the time of entry into the EEC, was an obstacle, for a car components manufacturer.

- Relating the high cost of employing EEC nationals to the salary levels in the UK creates a difficulty in getting the right people to work in - say - British sales offices in EEC countries.

- Deposit schemes imposed in some EEC countries from time to time create a temporary restriction, e.g. the deposits imposed by Italy on Italian importers to deposit 50% of the value of imported products.

- Price differentiations for small manufacturers form barriers to selling to EEC countries.

- Constant changes in modes and tastes, for example in the clothing industry, were thought to be an obstacle, since they require long-term planning and designing programmes that may, or may not, fit the market requirements. Deviations to what is forecast happen all the time.

4. Preparations firms may have undertaken to penetrate the EEC market and policies implemented

Many manufacturing units planned for Britain's entry into the EEC. They covered a wide spectrum of activities and policies. The following are features of the preparations that took place and of those policies implemented as a requirement to the enlarged market:

- Co-ordination on sales targets and prices between UK based manufacturers and their affiliates in the EEC countries.

- Shifting of managers and staff from one job to another, and from one company to another in the group.

- Some started their preparations by employing consultants who carried out surveys in the EEC countries in order to advise them on the competition conditions, on products needed, and on every other factor.

- Some altered completely the relationship existing between the UK unit and its affiliates in the EEC countries. Prior to the reorganisation the EEC units were subsdiaries, now they are treated as distributors. A reason behind such a change was specialisation, which they felt would improve the results. That would be achieved by letting the UK plants concentrate on manufacturing, and the EEC ventures concentrate on sales operations. Another change needed in that context was to man the EEC sales operations mainly by the MDs, aided by nationals of the countries concerned.

- A company took a comprehensive step in preparation for Britain's membership:

  (a) Investment programmes were initiated as a result of the expected growth of trade.

  (b) It looked closely into the purchase of raw materials, as it was not certain how far it would be affected, since the company buys much of its materials from a country which might join the EEC.

  (c) It also looked at the implications for administration; this did not involve any restructure of the organisation, as the company had already been trading through their affiliates.

  (d) It considered a production rationalisation programme to include the UK company, together with its sisters in Germany, France, and Italy, since the latter had a small scale of rationalisation.

- Many companies have done the necessary homework before entry; market research, structural analysis, and setting targets.

- One company stated that it anticipated the eventual British entry into the EEC. It took action ten years beforehand when they decided to build plants in France, Germany and Italy. At the time of entry they were well established so they did not feel the need to undertake any further preparations or changes. Some other companies that also had established themselves in Europe did not enter upon any preparatory plans for the market, except for an evaluation of their operations and potential expansion.

- An opposite example to those companies mentioned above, is a company that already had a foothold in the EEC market, but found it necessary, in the wake of the accession, to reorganise the whole structure of the European operation. The features of the changes planned and executed were:

  i. The market is treated as one identity and a separate company was set up for EEC operations, followed by reorganisational structure.

  ii. Coordination on sales targets and prices between the company and affiliates in Europe.

  iii. Centralised assessment of the whole performance of UK operation with its associates. This was accompanied by exchange of experiences, reports, and forecasts regarding pricing, modifications to the products, production programmes and costs, and cooperation in production solutions.

  iv. Shifting of managers and staff from one job to another and from one company to another.

- Plans to build sales organisation, warehouse or manufacturing plants were reported taken.

- Increased production capacity in existing plants in Britain, accompanied by investment in inventories in different EEC countries.

- New managerial posts were created to look after EEC operations as a whole and/or to control the total marketing concept in the major EEC market, e.g. the German market.

- Comprehensive evaluation of product specialisations in relation to those demanded in the market.

- Employing nationals from EEC countries in Britain, especially in marketing and sales departments.

- Revision of existing policies of purchasing of components by switching to an EEC country according to availability to benefit from low prices due to reduction in duties.

- Establishing contacts with an international group of companies operating in the market, and then making use of that group in trading. Using this international route was found to be a successful way as a preparation for entry into the market.

- Some companies have done nothing to prepare for Britain's entry since their capacity was stretched between the home market and existing export channels, and since there was no capability of introducing new investments in the short term.

- Exchange of training facilities between a company and its associates was the only action needed as the production structure, selling organisation etc. were adequate to meet the requirements of the market.

- Almost all the companies interviewed engaged in market research in the EEC in order to decide:

  a) What is being manufactured in Europe?

  b) What the volumes of sales are.

  c) Who is producing what?

  d) Can their existing products meet the market requirements?

  e) What needs to be done?

- One firm gave examples of a comprehensive pre-entry approach that it undertook:

  1. It researched the market in depth.

  2. It produced redesigned product ranges suitable for the market.

  3. It produced literature in multiple languages.

  4. It introduced a mobile exhibition vehicle for touring different EEC countries.

  5. It increased the numbers of visits by the relevant executives to the market.

  6. A follow-up and assessment programme was introduced. Meetings for this purpose were to be attended by EEC countries' personnel and agents.

  7. Three local warehouses and service facilities were set up in France, Germany and Italy. Additional distributors were also located and activated.

- Among steps taken to penetrate the market were:

  i. changes in organisational structure,

ii. Acquisition of new ventures

iii. Investment in machinery.

- Small enterprises interviewed have not formedany policies in preparation for accession to the market. Some did not approach it after entry, as the home market demand utilises their capacity in full. Others tried to promote their activities by advertisements in one or two EEC countries, but they found the experience costly and unrewarding.

- Several poissiblities for oganisational changes throughout the EEC were thought of by a holding group of companies. One example has been to have an autonomous, but combined manufacturing unit, with a separate marketing organisation in each EEC country, each treated as a profit centre.
  Another possibility is the formation of a single company for the whole of the EEC.
  An alternative, was the setting up of production facilities in a major EEC country to be responsible for products despatched to other EEC countries.
  Those choices were considered before entry, with the background that change in any direction is a slowly developing, evolutionary process and dependent on the personalities of the people at the various units, and on the way the owners of the group; in this particular firm they were a family; feel about it.

- Marketing and sales functions were reorganised by areas in relation to sales, and by commodities in relation to marketing.

- Pricing policies had to be restructured by adapting centralised policy for the whole EEC market, that allowed differences in the price structure in different EEC countries based on considerations

relating to the competition condition in each country.

- Constant comparison with the performances of the European associate companies. This led to a creation of opportunities, stimulus to innovation, review and transfer of operations from one company to another, cooperation in cost production programmes and in solutions to production problems.

- Companies that have plants in one or more of the EEC countries and were operating under different brand names, found it necessary to unify branding under the name of the holding company to reinforce the group's image and to unify its methods.

- In restructuring marketing operations some companies increased the number of their outlets and their distribution network so they could get a better coverage of the market.

- Production rationalisation between associate companies in EEC countries, so that any one type and size of product is only made at one location. This would help to concentrate the volume, create better production facilities and obtain economies of scale.
  Again those affiliate companies are inter-dependent, as each makes part of its requirement and buys the rest from its associates. To organise and administer these operations a centre has been established in Brussels responsible for coordinating the production and shipments between the affiliated companies.
  Finally a transfer pricing system was applied to shifts of production from one country to another.

- Major and minor changes have to be applied to products in order to overcome the technical barriers existing in some EEC countries.

- Affiliated companies were treated as separate identities, instead of being a mere subsidiary and the UK organisation concentrated on production whilst the European companies concentrated on marketing.

- A group of travelling executives was set up to liaise between UK and European operations. They were expert in all functions concerned, and their main task was to assess plans and give advice where appropriate.

- A major British firm moved towards European production programmes despite its production being governed by national policies with international scope. This firm considers that it made a significant change due to EEC membership although not necessarily one leading towards an integrated industry.

- Introducing the post of a European General Manager responsible for both manufacture and marketing in EEC countries. He depends to a large extent on the existing structure within the organisation, but is helped by a small marketing, operational research, and financial staff.
  He and his staff are not a central organisation planning the day-to-day activities within the operational EEC countries; they deal only with any major matter which could affect such operations. The post is to be seen more in the context of reducing the burden of work on the group's directors, than in the benefits that come from the coordination of the EEC activities.

- A company that expected its trade to be increased by 15% because of Britain's entry into the Community, found no need to change its organisational structure. They did establish a special section which deals with Germany specifically, as they are engaged in cashing orders for them.

- Product harmonisation between affiliated consumer product companies in the EEC was brought about by the EEC legislation in terms of packaging design and information to be conveyed to consumers.

- A general sales manager responsible for the EEC was appointed, together with regional marketing managers in EEC countries. The latter were local nationals.

- Advertising was intensified by a consumer product company, accompanied by using EEC firms for exhibiting.

- Joint ventures with EEC partners was one policy executed after entry.

- Another comprehensive example of the direct effect of entry on changes of policy of a large company in the semi-conductor industry was given as follows:

In marketing methods: Before the entry they had factories in Britain and Italy each confined to selling in its own territory. Germany, France and the other European countries were covered by agents and distributors. Supply of goods to them was centralised in Belgium, through a warehouse.

After EEC accession, the Brussels warehouse was decentralised and brought under UK control. The UK company formed sales offices with sales organisations in each EEC country. The total marketing concept remained centralised.

The above company stated that these changes would not have happened if the UK had not joined the Community.

In products: The company found it necessary to modify some products for the German market to meet the designs of the competitors. Those modifications were applied afterwards to the home market product as customers began to request them.

In investments: Expansion of production facilities in Britain, Germany, and France.

Reorganisational Structure: Necessary changes in organisation took place following the changes in the European operations.

- Buying a plant in Belgium fulfilled more than one objective for a company.

a. It already had a market there, which would be supplied by that plant, as well as the markets in Holland and France.

b. As a safeguard to potential expansion in the existing UK plant, which is limited and difficult to spread out as it is surrounded by developments.

c. Major customers in their trade, packaging and medical materials, insist on having two sources of supply in order to secure continuous supply.

- Changes to standard sizes of products brought about by EEC legislation. This worked to a company's advantage as it would not be obliged to invest in several kinds of machinery to cover a broad size range.

- UK national representatives in the EEC countries were replaced by nationals from those countries.

- Regarding changes in products to meet the requirements of the market, one company had to make all the possible modifications from minor changes to production of a completely new product.

- Training programmes were introduced and exchanged between the UK company and its affiliates in the EEC.

- Larger marketing facilities and the strengthening of sales forces dealing with the EEC countries.

- After the necessary preparations; market investigation leading to the knowledge of what combination of products were needed in the market, a company introduced a new package in marketing methods. They started stocking certain combinations of product to be drawn off from the UK and from one or two distribution centres in Europe. This stocking reduced lead times. They trained more people to understand their products and have produced multi-language bulletins.
  They assist distributors by direct mail campaigns in their own language, with additional literature.
  They check on prices at more regular intervals to judge on their suitability.

- In order to meet the requirements of the market a firm took the following steps regarding production and products:

i. They extended their production lines and made them more complex.

ii. A major change in products came about because of metrication. The complete range was built to metric standards which meant that there was a phase-out period in the UK of the British standard. They are continuing to make their old products, but the products they make now are more suited to the EEC than to the UK market.

- Companies with international organisations intended to sell overseas, needed only marginal organisational changes after entry.

5) Competitive Conditions

The Competitive Conditions the Case Study firms experienced after the entry, are illustrated by the following:

- Prices in the market could not be matched for one firm as its Competitors prices were unrealistic. Accordingly, Sales Volumes were lost.

- A firm stated that they faced a formidable competition as far as quality is concerned.

- Competition from firms in the rest of the EEC Countries into the U.K. market took place with regard a British based manufactured products. The Case Study firm that experienced this penetration to its home market, reported in the mean time, that those EEC firms have not achieved the success expected.

- An engineering manufacturer faced severe competition in the U.K. and EEC markets from subsidiaries of European and American Companies. Relating this Competition to Britain's entry into the EEC, they found that entry encouraged the American to believe that things would become easier; barriers would come down. They therefore embarked upon an intensive programme of investment in plants and factories in the EEC Countries and in Britain, whose share was £20m.

This firm considers that the American subsidiary would not be so large in the U.K. without Britain's accession to EEC.

- One firm found it necessary to compete harder in the enlarged market.

Although it was always their policy to review from time to time their pricing, quality, and production methods, they found it even more necessary with the competition they experienced from EEC competitors penetrating the U.K. market. The measures they took were to cut prices, and to improve production methods.

- More than one firm, shared the view that competition conditions are the same in all EEC Countries except for minor variations where national legislations may favour that Country's products.

An opposite example was given by one firm, as some legislation in Italy helped their trade. This legislation does not allow Japanese products to be exported to Italy, and Japanese products are a major source of competition to this firm.

- From the point of view of competition related to comparative advantages in industry structure, a major British firm stated that the EEC is very similar. There are no advantages on either side in terms of comparative cost or technology.

However, in sectors where the Company has a high relative advantage in those two factors they are well placed to compete and increase exports.

- A Company does not face a penetration into the home market from firms in the EEC due to price regulations effecting its products in the U.K. market. Low prices in the U.K. makes it difficult, and not worthwhile, for EEC Companies to compete with British firms in Britain when they can get high prices in Germany or Italy.

- Competition is fierce regarding engineering manufacture, so only the large firms with huge turnovers could survive in either the home or EEC markets.

- Political or national interest does influence the competition conditions in certain products; for example aerospace products; in the home and EEC markets. The rules of perfect, imperfect, or regulated competition cannot be followed in relation to this. There have been efforts to harmonise production, and cooperation programmes were put forward by the EEC Commission to avoid duplication of resources but this has not worked. In that context the aircraft market in Europe was described by the interviewee as, " inhibited by an inefficient industry lacking larger runs, with fragmentation and national preferences. " This is due to American competition, with the result that, as a French writer* explained, "European technology is exported to the U.S. where they exploit it, and then export the final goods to everywhere, including Europe".

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*G. Jack, Difine Americane, France, 1967.

There were three points of view considered with regard to the aerospace market and the competition attached for European decisions,

i. For the Americans to build what they are good at, long range civil aeroplanes, and Europe build what it is good at, the smaller compact type of aircraft. This was rejected as a Protectionist attitude, and there was no guarantee for (a) more reliable European planes than the Americans produced, (b) that the Americans would accept it.

ii. To build European aeroplanes for the world market, not just for Europe. If they are good enough for the world market, then the European airlines will buy it.

This free market enterprise attitude, depends on a competitive approach that is based on improvement of the product, the project definition, the timing, and pricing.

iii. The third policy was advocated by the EEC Commission, that Europe should club together consolidate their positions and activities and build planes for the European airlines. This point of view did not prevail, as the commercial reality dictated the major market is in America and every EEC aerospace manufacturer was keen to get a share of it.

This is a lengthy example of the factors that influence the competition conditions in a major industry in the market, and which reduce the EEC relatively to a mere customs union.

- A Consumer Product firm explained its superiority in the competitive market in terms of consumer acceptance. They have more strength in depth; and a smaller product range, but most of them have very strong selling lines.

Historically they enjoyed a good price advantage over their competitors because of lower unit cost, and their greater efficiency in manufacturing operations. The type of product they have produced and they concentrated on over the years and the greater facilities they enjoy in areas; such as Commodity purchasing, where they have been able to make gains on the terminal markets and pass on them to the Consumers; were other reasons given in gaining advantages over Competitors.

- Penetration of EEC firms to compete in the U.K. market was nearly impossible, at least in the short term, for particular Car Components products, friction materials, for two reasons:

i. The U.K. buyers adopt Conservative policies, they insist in buying from British firms.

ii. Standards, quality, and suitability for British Car manufacturers which were not reached by EEC Competitors.

The firm referred to German Competitors because they are the biggest manufacturers of friction materials in the EEC, outside Britain. The firm was able to penetrate and compete in the German market because its products meet the requirements of that market.

- Again in the Car industry a firm had to introduce a new range of vehicles designed specifically for the EEC market in order to compete and to have access to the market.

- Regarding the Competitive Conditions in the Children's Clothing industry, one manufacturer stated that it is easier for British firms to compete in the EEC market than EEC firms in Britain because of the relative weakness of sterling to the major EEC Currencies, and the suitability of British products.

- In the power semi-conductor market, competition in the U.K., from firms in other EEC Countries, has increased. However, the share of the market of British firms has also increased. That is because of the high rate of expansion at the home market, despite the depression in the economy over the period involved (1973-1975).

- Competitive Conditions differ from one country to another in the EEC. For example Germany is a very price-conscious market, where as France, Italy, Holland, and Belgium are much interested in service and reliability. However, cost pressures are involved everywhere. This was viewed by one Company.

- Competitors from the rest of the EEC Countries, see that G.B. is part of the EEC market and consider that they should operate in it. They see G.B. as being a potentially very large market, probably the biggest outside West Germany for certain products, for example in packaging and packaging materials.

- The unstable Cost of Production in Britain which tends to rise in short periods, against the relative stability of the Cost factors in EEC Countries, gave the Competitors an advantage over their British counterparts in both the home and the rest of the EEC markets.

The above was an element of the Cost Structure differentiation in some of the EEC Countries and G.B. in the years 1974-1976.

- More flexible approach towards satisfying urgent deliveries and rectifying technical problems were among policies adapted by British manufacturers in order to meet EEC Competitor's penetration to the U.K. market.

- Competitive Conditions in the U.K. market for manufacturers that are in no need of large amounts of capital and without large premises, encouraged small firms to enter. A Cut Price War always results. This is a damaging process that, not only often derives many enterprises out of the market, but also hinders Competition in the EEC market.

- Competitive Conditions for certain products, e.g. Cosmetic and perfumery, differs according to brands. Some brands are local and therefore have no rivals in the EEC or U.K. markets. Others are internationally competitive.

- EEC Competitors were kept out of the U.K. market in certain products. For example in Car Components, because of the amount of time usually needed for the introduction of new vehicles as some British manufacturers bring out a new truck every 3-4, or even every 10 years. So the chances of getting components fitted to a new vehicle must depend upon the production of a new vehicle, or when it is in the "prototype" stage. It follows that no Competition occurred since joining the EEC, as there were no new models introduced, and the Components in use were well established. It ought to be mentioned that this Condition excludes British Leyland for obvious reasons*.

- Certain products, e.g. pumps, competed against each other in terms of quality and price and not in technology as they are standardised. Hence the markets, in the U.K. and other EEC Countries, are wide open.

- Variations in Competitive Conditions relating to some products are more industry based than territory based. For instance in the chemical industry they have fairly sophisticated buying methods and standardise as much as possible, with very detailed technical instructions and Commercial Conditions e.g. in terms of payment and extended credit.

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*International position, links, and tradition of suppliers.

- As a direct effect of EEC Competitors penetration into the U.K. market, an engineering firm's share of the home trade has been reduced. They stated that, "there are many more EEC firms run in the U.K. market, and those here have gradually increased their business. They had all started from a low point. There were not many EEC Competitors in the U.K. prior to Britain's entry, now there are number of new Competitors, all with a very small share."

This firm considers that probably the major factor in tempting the EEC firms to come to the U.K. has been the low labour rates. The Company has met this Competition partly by adjusting prices, and partly by shifting resources to intensify the production that their competitors are not good at.

- For those Companies that only start production after offers and quotations are made, Competitive Conditions did not change as a result of accession to the EEC. Their Competition depends on elements that the EEC did not affect; price, delivery, and reliability are what Counts.

(6) Economies of scale and efficiency forms, firms may possess that helped in the enlarged market:

Economies of scale are an objective Manufacturing industries look for in order to reduce cost, achieve high productivity, and accordingly become more Competitive. The following are examples of the economies some units expected to obtain after entry, listed according to the significance they attached to them:

1. Organisational economies of scale i.e. concentrating controls of a number of production units within one management framework.

2. Larger production runs.

3. Ability to achieve technical economies by linking together processes in one production unit.

4. Also some firms expected:
   a. Marketing economies i.e. sharing promotion and distribution costs.
   b. Better distribution facilities.
   c. Greater integration of different personnel especially in Germany and France.

5. Advantages of bulk buying and economies of purchasing power over their suppliers, due to the policy of centralised purchasing.

6. The use of high capacity specialised and larger units of machinery and capital equipment.

7. Spreading initial costs in the case of new products.

8. Economies attributable to learning and training.

9. Economies due to the transportation of a number of processes simultaneously.

10. Economies of scale in marketing costs through the confidence of customers and through selling in bulk to individual customers.

11. Economies of finance due to the expected increase in profits and hence more retained profits.

12. Economies due to the re-organisation of management:-
    a) employing more Specialists
    b) the less than proportional demand for decision making, although they also expect diseconomies here, because the new organisation may change the motivation of managers.

- Economies of scale in any form enjoyed by some firms before the entry, helped them, consequently, in competing in the market.

- Though wages in the U.K. are lower than in the other EEC countries, still some European Competitors overcome low U.K. prices, because of the better and more numerous economies that the former enjoy.

- Some units achieved economies of scale namely, the economies of mass production and greater specialisation of labour, by the

reorganisation of Production undertaken. This reorganisation took the following way; the products which are produced in more than one country have to be specifically linked to a certain unit in a certain country in the EEC, including the U.K. This process was executed according to capacity utilisation, the bigger share of the market, and past productivity results.

(7) The effect of the performance of Britain's economy.

The following are what firms had to say regarding the effect of the British economy, in the years 1973 - 1975, on their performance. This included the effect of floating the pound, and its consequent devaluation:

- The poor performance of the U.K. economy in the years 1973 - 1975 did not help the manufacturers that depend on the home market for the growth of their trade in order to have the resources needed to penetrate the extended market.

However recession and the decrease in demand on the home market, also resulted on the existence of spare capacity. This enabled those firms to switch resources to lines of productions that would increase trade with EEC Countries.

- Some manufacturers' trade has been affected so much by the value of the £ that they experienced a "buying money market" that decided the size of the "product market". That is that the present value of the pound and the expectations of their customer of its future value, did effect their order.

- Again, devaluation of the pound, to most firms interviewed has helped their exports abroad, as it made their products cheaper.*

However, one firm claimed a negative effect from the devaluation, as the economies of the EEC Countries were tightening up, inflated, and depressed.

- The inflationary wage claims in 1973-1974 and the rate of inflation were effective factors for a low performance.

- Compared with elimination of tariff, devaluation of the pound had more effect on trade. To some firms, it was the only reason that caused the improvement in their performance despite the high inflationary cost related to their type of products - Capital goods.

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*That would not be the Case for those firms which import most of their raw materials or Components, since their import bill would offset any gains from exports.

- However, Capital intensive undertaking, have not been affected by wage inflation as this does not Constitute a major Cost amongst related other factors of production.

- One firm put the effect as follows, we quote "In 1975 and early 1976, when the use of industrial products in Britain was at its lowest level since the last war, most capital goods Companies have gone looking for export business, most particularly in the middle East, but also to a large extent in the EEC, to maintain their production level."

- Although firms experienced a rise in the Cost of their imported materials due to the devaluation effect of the £, the relaxation in Commodity prices, world wide, due to the recession in the world economy, has worked in favour of some Companies import bills.

- Adjusting prices in short intervals because of the high rate of inflation and inadequate forecasts of material prices, were hindrance to trade.

Introduction of Controls, e.g. price codes, incomes policy; brought about by the poor performance of the economy, have affected efficiency and flexibility in decision making and policies of different Companies.

(8) General Comments:

A) Firms which took part in the Case Studies:

The following are comments, made by the participants to the Case Studies, on their performance in the EEC, either at the time of the preliminary survey, 1974, or at the time of the follow up for the Case Studies, 1976. We quote:

- "We are producing new vehicle designs to suit the EEC directives of safety and performance. These vehicles will not be available for marketing until the beginning of 1976."

- "Sugar, milk, and flour prices rise substantially in normal times because of the CAP., though, in 1973, they were probably lower than we could have paid on the free market. We have had to accept a control on our product formulations, through the EEC Chocolate Directive, which has been more restrictive than anything the UK formerly has imposed."

- "Being a multi-national company with sister companies in 'old' EEC countries, membership enabled the creation of a more uniform and more efficient base for trading within the group, (Common Laws, regulations, etc.)"

- "With all our UK markets suffering from the recession the ability to sell in a large market is invaluable. We are undoubtedly helped by the low level of the £, but even at a higher level we should be still able to sell against the continental competitors."

- "A significant reduction in the earlier attitudes towards segregating 'Home' and 'Export' customers and real progress towards equal importance being attached to the market as a Whole."

- Our relationship with an existing International group greatly helps. By joining the 'club', and actively showing we have the intent to produce the right products, customers are starting to believe that the UK might actually mean business at last."

- In general terms everything seems to happen a lot slower than one would have liked. One expects that as a member of Europe, and theoretically, with a market of 250 million, instead of 50 million, then surely everything should follow. We haven't really found that, we have found that we have to gain acceptance in the EEC area, to steadily build confidence with other companies. I don't think that being a British manufacturer has any real disadvantages in terms of quality or respect for the product. The only worry on the part of the EEC customers, is the inability to promise delivery."

- "This huge market is nothing really. We still think of it as being "Export", and I am interested in one thing only, and that is selling the maximum amount of products at a maximum profit. If we find more profit selling our products at the North Pole instead of the EEC countries, then we will go to the North Pole. At the moment

we believe that we can get the most profit in the Middle East, so that is where we concentrate our efforts. At the end of the day it is 'PROFIT' that counts."

- "We would say that we are in the Common Market to stay, irrespective of Britain's future participation. We add that as far as our products are concerned it is an extremely difficult market to break into, and we must try some different methods to penetrate the market even further."

- "We see that after Britain's entry into the Common Market, we make profits easier. With the political changes that have taken place in the World we lost preference in the 'old' Common Wealth which previously helped to keep out the competitors. So the EEC is the good and natural alternative, and has increased our efficiency and improved our methods of production.
Since the elimination of tariffs between the member states, other countries in the ROW have introduced tariffs. The company sees no diversion of trade taking place from ROW to the Common Market; selling to ROW is decided by circumstances in each country. There are various economic problems which occurred last year that made some countries stop buying altogether."

- "Joining the EEC is going to have a far greater effect on consumer goods than on industrialised goods. If we were making something which was being made by a large EEC industry, we would probably have far stiffer competition; similarly if we cam across a country

where there was a protected industry. But the steering gear industry in the various countries of the EEC is not very heavily protected, so we can enter fairly easily. We see, at the company, two very important factors: A) the price is coming down, which would be in our favour, and B) nationalistic feeling. People in this country don't mind buying foreign goods, but in Europe they tend to buy their own goods rather than the imports."

- "The company is progressing with its business in Europe, we were trading there before Britain joined the EEC. We will continue to develop our business after entry, not only in that market, but everywhere in ROW."

- "Regarding raw materials, if Britain had not entered the EEC, the Company would have been in a preferential situation as we would have been able to buy our raw materials from the cheapest source. The fact that the UK had entered, and that we as a company were quick to recognise opportunities in the CAP system, gave us a little bit of edge in terms of our performance with other UK, or European, confectionery manufacturers.
  In general terms the EEC has not figured as a major factor in the company's thinking, we are still very dependent on the UK Market. That is our major market, and that is what we are here to satisfy and develop."

B) Firms which refused to participate in the study:

The following are quotations drawn from replies sent by firms that either did not wish to take part in the study for the reasons given below, or considered the opinions they indicated as their participations in the investigation:

- "Owing to the fact that there is very little international trade in empty tin boxes, I think I can say that membership of the EEC has had negligible effect upon our volume of trade."

- "I am not sure that any information or views that we could give would help your research in this matter. Our business is exclusively in the manufacture and distribution of mineral acids which are by their very nature, cheap materials, and therefore ones for which the carriage element becomes of extreme importance.

  Although we are a major concern in the acid business in South East England, we are not able, for the reason of carriage cost, to export to the continent, nor can Continental manufacturers economically ship competitive materials across the Channel."

- "As this Company has been deeply committed within EEC for many years UK Membership of the EEC has not had a discernable effect."

- "Having read your questionnaire we could only offer negative information and such insignificant facts as would be of no statistical help, on account of the very limited trade which any of our associated companies have been able to conduct with EEC countries."

- "After closely studying the questionnaire, we feel that the majority of questions apply more particularly to wholly-owned British companies rather than to British-based subsidiaries of international organisations. The overseas parents of many subsidiaries, such as our own, had already established further subsidiaries, with manufacturing operations, in the original EEC countries many years before the accession to the UK. The consequecnes of entry upon the UK subsidiaries of such organisations are - as was to be expected - quite different to the effects upon a company whose sole manufacturing base lies in the UK."

- "We are a multi-product company organised on a divisional basis, each division being autonomous in most areas and certainly in the fields of marketing. Different conditions exist in the various divisions and there is no way in which we can give you an appropriate answer to most of the questions posed."

- "With reference to your letter in connection with the study you are conducting, on the possible economic effects of joining the EEC, I have to inform you that we shall not be completing and returning your questionnaire as it is absolutely impossible to generate answers to the questions you pose, with our diverse range of activities."

- "I am afraid there would be no point in taking part in your survey because our company is already extensively represented in the Common Market and there are companies in every member country."

- "My company is part of a group of snack food manufacturers with fairly broad interests in Europe, but owing to the nature of our products, which have a disproportionately high transport cost for export, it is anticipated that the EEC will not alter the nature of our business."

- "We have given very careful consideration to your proposals but we do not believe that our answers to your questionnaire would be of much help to you, particularly since we would be obliged to leave the majority of questions unanswered on the grounds of commercial security."

- "The exports of this company are primarily orientated towards the Scandinavian market, and, in smaller quantities, to the Middle Eastern countries."

- "My company did not export boilers to the EEC countries before Britain joined, nor have we any immediate prospect of doing so. Although we undertake the export of quite a lot of our boilers they go to Hong Kong, Bangladesh, Malta, Iran, and other countries away from the EEC."

- "In view of the fact that this company does not export, we are not in a position to complete this circular, and return if for cancellation."

- "We regret to inform you that due to extreme pressure of work at the present time, and bearing in mind that we do not envisage expanding our business to the EEC market in the foreseeable future, we are not in a position to participate in this survey."

- "We have recently phased out the AC428 series which we manufactured owing to the difficulty in obtaining Italian panels from Frua, and Italian who designed the Body in Turin. We hope to be in production with the new car, the AC3000, towards the end of the year and, in the writer's considered opinion, our joining the European Community should increase our overseas market, and he personally feels that we should have joined 10 years ago or more."

CHAPTER VI

THE CASE STUDIES: PART TWO

We devoted both Chapters V and VI to the case studies.

In Chapter V, we reviewed the following sections:

First: Approaches to the choice of the cast studies

Second: Data collection - case studies

Third: Presentation of the case studies

Fourth: Factor analysis

With regard to the fifth section, which is concerned with the analysis of the case studies, we have done the first approach to the analysis, namely the qualitative; descriptive; approach.

In this Chapter we continue with the remaining approaches(*) to the analysis. These are:

II The quantitative approach.

III The comparative approach.

IV The grouped approach.

(*) In Chapter V, pp 143-145, we indicated the variables and the method of analysis relating to each approach.

II The quantitive approach

A. Analysis of the trade figures achieved by the case study firms with the EEC countries in the years 1973-1975

The following table, VI-1, indicates the trade figures(*) which some firms were ready to disclose.

As is shown in the table, some firms have done extremely well, some have not and other firms were not affected at all. One firm, Foden Ltd., started trading with the EEC countries two years after entry at a very modest level. The percentage of exports to the EEC of total exports in 1975 was 1.54%. One example of companies that have done extremely well in the EEC market is SKF (UK) Ltd. The percentage increase in its trade to the EEC, between 1973 and 1975 was 1400%. Examples of companies that have not been affected by Britain's entry into the EEC are Octel Associated, Mars Ltd., and Gala Cosmetics. Their trade volume with the EEC stayed about the same.

Questions have to be raised as for the changes in trade shown in table V-1 and described above.

(a) Does any change constitute a trend for the industries these firms belong to?

(b) Could these represent a trend of the UK trade performance with the rest of the EEC countries.

These questions are discussed in the following analysis.

(*) The way the trade figures were expressed differ from firm to firm by value, quantity or percentage. That we could not do anything about as it was decided by the firm's executives to meet the balance they keep between disclosure of data and its secrecy.

TABLE VI-1

Trade figures with EEC Countries in the years 1973-1975

Company Ref. No. and Description	1973	1974	1975
(4)		Value (£000)	
Export sales to the EEC	200	650	3000
(5)		£m	
Total Sales	7773	9302	10216
of which			
Total Export	1451	1928	2516
% of which			
To EEC	26%	24%	15%
=	377	463	377
(6)		% Index of Tonnes despatches	
Export tonnes despatches as percentage of the total tonnes despatched	1.2	1.6	1.1
(7)		% (quantity)	
Export sales (anti knock compound)*	80	80	82
Export sales to EEC as % of total exports	15	14	13
(8)		£m	
Total Sales	11.2	15.1	15.7
of which			
Domestic Sales	8.8	11.1	11.3
Export Sales	2.4	4.0	4.4
of which			
Exports to EEC	1.4	2.3	2.2
Exports to ROW	1.0	1.7	2.2

(*) The product with which the company deals in export.

Company Ref. No. and Description	1973	1974	1975
(11)		As 1971 = 1	
Total Sales	1.05	1.08	1.06
of those	Domestic sales and ROW export		Export to the EEC
	70%		30%
(13)		Value (£000)	
Exports to the EEC	1.889	1.693	2.706
(15)		No. of vehicles	
Total export	239	236	454
of which export to EEC	-	-	7
(17)		Total FOB sales = 100	
Export to EEC	26	21	26
Export to ROW	74	79	74

(19)

The company stated that the percentage of the increase in export to the EEC countries in real terms was 120% (as 1970 = 100) for the period 1971-1975.

B. A comparison between the results achieved in A for each firm, with the trade figures achieved by the industries they belong to, according to the SITC Classification

Table VI-2 indicates the trade balance with the rest of EEC by commodities, for Sections 5 to 9, according to the SITC Classification.

As has been stated before, the commodities of the companies chosen as case studies fall into one or other of those sections.

It appears that the trade balances of all industry groups; sections; are not in the favour of UK industries. That is except in Section 9: Other goods, which shows a trade surplus.

Accordingly the firms that increased their trade have done so against the trend of the commodity group within which it falls, while those firms that have experienced shifts in their home market in favour of their EEC competitors, corresponded with the trade balances of their relevant commodity group.

Hence it has to be a special advantageous competitive position possessed by those individual firms which improved their trade.

C. Relating the analysis in A and B to the trade performance of the UK with the rest of EEC

Table VI-3 indicates the UK balance of trade with the rest of the EEC in the years 1973-1975. For each year the visible balance was in the favour of the rest of the EEC. During those years the trade deficit increased

from £1,165m to £2,006m, then to £2,348m respectively.

Again the trade deficits described are consistent with the trade deficits that the groups of commodities showed in Table VI-2.

Hence, we could read from that that any firm which improved its trade with the rest of EEC in the period 1973-1975 has done so against the trend of UK trade with the rest of the EEC.

The analysis of the results of this quantitative analysis will be linked with the results obtained from the other approaches.

Table VI-2

(*) Crude trade balance with rest of EEC by Commodity

t millions

SITC(R) Section		1973	1974	1975	Total
5	Chemicals	- 33	-107	- 6	-146
6	Other semi-manufac.	+182	-142	-184	-144
7	Machin. & Trans. Equip.	-321	-262	-229	-812
8	Other Manufactures	-103	-127	-127	-357
9	Other Goods	+ 27	+ 20	+ 27	+ 74
	Total	-248	-618	-519	-1385

Source: OTS Basis

Table VI-3

UK Balance of Trade with rest of EEC 1973-1975

t millions

	Exports FOB		Imports FOB		Visible Bal.	Exp. as a Proport. of imp.
1973	3943	(+39)	5108	(+49)	-1165	77.2
1974	5565	(+41)	7571	(+48)	-2006	73.5
1975	6258	(+12)	8606	(+14)	-2348	72.7

Source: Balance of payment basis.

(*) Use of crude trade balance - (exports FOB less imports CIF) has a deficiency, that is the interalia difference in valuation. We were obliged to use it according to availability.

III Comparative approach

Comparison of the pilot and main surveys

In Chapter IV we analysed the data obtained as a result of the pilot survey conducted in 1974. A prime objective of the investigation was to assess the expectations of the companies approached.

In 1976, when we considered the case studies, we were aware that a sample of companies that responded to the preliminary questionnaire had to be included. This was to compare original expectations with actual results, and then explain the reasons for divergence, if any.

Tables VI-4 to VI-7 indicate a summary of the factors assessed, expectations, and actual results obtained.

The factors assessed for the purpose of this comparison are:

Table VI-4: Increase of sales volume because of tariff reductions.

Table VI-5: Effect on trade due to Britain's membership of the EEC.

Table VI-6: Help to trade due to devaluation of the £.

Table VI-7: Increased competition in the UK market from firms in the other EEC countries.

Comparison between Original Expectation and Results Obtained

Table VI-4

Company Ref. No.	Factor Assessed:- Increase in Sales Volume because of Tariff Reduction	
	Expectation	Results
1	Increase of 5-10%	There has been hardly any effect.
4	Increase of 5-10%	Could not be assessed because of the UK economic condition.
5	Increase of over 25%	The effect of tariff elimination is not more than 5-10%
6	Not relevant	Relatively small impact
8	Increase of 5-10%	Target has been achieved.
9	Increase of 16-20%	Elimination of tariff helped sales enormously but could not be quantified.
11	Increase of over 25%	The company is reaching its expectation very rapidly. The increase is due also to other factors.
12	Increase of 5-10%	Expected increase not experienced because of the strain on capacity.
13	Increase of 11-15%	It is difficult to identify. There are other number of factors contributed to the increase.
15	Increase of over 25%	No increase at all.
18	Increase of over 25%	Target achieved but tariff is just one factor and not the major reason to sales increase.
20	Increase of 5-10%	5% increase in sales volume been achieved in 1975.

Table VI-5

Company Ref. No.	Factor Assessed:- Effect on trade due to Britain's membership of EEC	
	Expectation	Results
1	No change	No change
4	Favourable	Not materialised
5	Favourable	Materialised
6	Not relevant	Helped only movements of goods between the Company and its affiliates.
8	Favourable	Materialised
9	Unfavourable	Trade increased, but not because of the entry.
11	Favourable	Materialised
12	Favourable	No change
13	Favourable	Materialised
15	Favourable	No change
18	Favourable	Materialised
20	Favourable	No change

Table VI-6

Company Ref. No.	Factor Assessed:- The help to trade due to devaluation of £	
	Expectation	Results
1	Not at all	It helped to offset the rate of inflation
4	Marginally	It made exports cheaper
5	Marginally	It affected them significantly
6	Significantly	They were directly affected through the cost of raw material
8	Significantly	The steady devaluation of £ overshadowed the reduction in tariff
9	Marginally	It did not help because of the economic condition
11	Marginally	It helped, but the group policy is a determined factor
12	Significantly	Every time the £ fell in value, it made them more competitive
13	Marginally	The devaluation has been absorbed in price increase
15	Marginally	It helped in making export cheaper
18	Marginally	The £ being weak overshadowed other advantages of entry (e.g. elimination of tariff)
20	Not at all	It is offset by the increase in the import bill

Table VI-7

Company Ref. No.	Increased Competition in the UK market from firms in the other EEC countries	
	Expectation	Results
1	None	None
4	Increased competition	Penetration of the UK market helped by membership
5	Increased competition	There are a number of new competitors, all with a very small share
6	Increased competition	No significant impact
8	Increased competition	Expectations have not been fully met because of the devaluation of the £
9	Increased competition	Foreign holding firms increased their market share through their subsidiaries in EEC countries
11	Increased competition	Competition increased but not at the companies' expense
12	Increased competition	Expectation materialised and there were shifts in favour of competitors
13	None	None
15	Increased competition	No assessment
18	Increased competition	It happened, but with limitation
20	Increased competition	They always consider it a possibility

Interpretations of the assessment in the preceeding tables

Table VI-4

As Table VI-4 shows, all the companies assessed, except one, expected increases in their sales volume due to tariff reduction. The range of the increases were from 5% to over 25%. After three years of membership, the expectations of increased trade have been met only by two companies of the twelve firms assessed.

Causes of divergence from the original expectations and reasons for meeting the expected targets were as follows:

(1) Elimination of tariffs has helped in making trade less costly as it resulted in savings in the transfer prices amounting to the duty which was due. However, between 1974 and 1976, with the UK economy in recession and with the fall in world trade, it has been difficult to assess the effect of reduction of tariffs on the expected increase of sales.

(2) Whatever help in increasing trade resulted from gradual elimination of tariffs, has been either offset or reduced by technical tariffs, i.e. other obstacles to entry.

(3) Quantification of the effect of tariff elimination was hard to measure in isolation as other factors also contributed to sales increase. Increased sales efforts, increased investment, and reorganisational structure were some of the other factors given. Devaluation of the £ also contributed.

(4) One company considered that the effect on trade was due to the trade cycle, rather than as a result of tariff elimination. The effects of the latter merely improved market penetration.

(5) For a company that sells components to a European producer, tariff elimination hardly helped their trade, as this depends on the proportional contribution of the part to the final product and the sales volume of that product.

(6) Factors that were considered as major reasons for sales increases, other than the gradual tariff reduction, were technical superiority and the siting of sales offices in some EEC states.

(7) Restraint on capacity was a hindrance to increased trade.

(8) A company did not achieve its expectations because of the home market situation. They forecast the expected increase in sales, planned the necessary investment needed and built a new plant. Then they suffered a down-turn in the UK market. They experienced capital shortage as they had to meet the cost of financing the new plant but had produced nothing from it. The EEC operation had to be put back.

(9) For a consumer goods company increase of sales materialised,

not only because of tariff reduction, but also because of changes in marketing methods and price flexibility.

(10) Tariff reduction for one company had a relatively small impact on trade increase. All it enabled them to do was satisfy demand from reserve production facilities in their affiliates at times when they would not have been able to do so from their own production facilities. Tariff reduction helped the movement of goods between them and their affiliates in the EEC countries.

However, this was not necessarily the best thing to do, especially in a large scale, because of the extra costs that are introduced; e.g. freight costs.

(11) An obvious reason for trade increases to the EEC countries was through passing the reduction in duties to the buyers in the form of price decreases, making the products more competitive. This was especially so in cases where the tariff duties were at a high rate.

(12) Inability to increase the capital invested to meet the expected sales increase was a reason given for divergence.

Table VI-5

In 1974, the companies who traded with the EEC countries before Britain's membership, were asked what they expected the effect on their trade would be after the UK had joined the Community. They were to respond to that question by a favourable, or an unfavourable answer, or by no change.

As Table VI-5 shows, out of the twelve companies chosen as case studies, and who were participants in the preliminary survey, nine companies in 1974 expected a favourable trend in their trade due to Britain's entry into the Community, one company forecast unfavourable effects, one company saw no change in their trade: the remaining companies considered that UK membership was not relevant to their trade position in the EEC market.

In 1976, as Table VI-5 indicates, the results were: of the nine companies that expected favourable effects -

6 firms have realized their forecasts
2 firms experienced no change
1 firm did not meet its expectations.

The company that forecast an unfavourable effect has experienced an increase in its trade, but not as a result of entry.

The company that expected no change did realize its forecast.

The company that saw the entry as not relevant to its trade position in the EEC experienced an advantage in the movement of goods with its affiliates.

The following are the interpretations of the results obtained and the reasons for the divergences experienced:

(1) For a multi-national company who traded with Europe long before entry into the EEC, the UK membership has not made much difference.

(2) Trade increase is not due to joining the Community but to increase in efforts and investment.

(3) Firms with a special trading position, e.g. Bristol Engine Division, R-R (1970) Ltd. did not expect any change in their trade with the EEC countries because of membership. Their trade practice depends on collaboration programmes in production with other EEC countries. These depend on political decisions, for example the military programme between UK, Germany and Italy.

(4) Entry into the EEC on its own is not the main factor for the increased trade in the case of a company that makes car components. Competition in the EEC market is very strong where vehicles of the member states are concerned, as every car industry in each EEC state tends to buy components from national firms. Hence, setting a plant in one of the EEC countries was the cause of sales increase. An example is Ferodo Ltd with the help to its trade received from a German plant.

(5) Strain on capacity and the home market conditions in 1973-1975 (depression and inflation) were factors explained as reasons for deviations from favourable expectations to trade increase. A no change result was obtained.

(6) Restructuring of the sales and market functions and personnel were reasons given for favourable trade results in the market. Another reason was the reorganization of production and marketing areas between affiliates operating in the EEC market.

(7) Having a foothold in Europe before UK entry, either through trading or by direct manufacturing, meant just a change in the psychology at the firm, but not a change in trade.

(8) Inability to increase the capital invested hindered the expected increase in demand in the extended market.

(9) A company whose results met expectations in increasing trade atributed this to the following factors:

- reasonable prices in comparison with the EEC competitors
- employing the right sort of salesmen and distributors
- maintaining a high quality service.

(10) Entry into the EEC, in view of a firm has not opened the floodgates for increasing trade, but rather created a situation which exposes people to that larger market. It has made UK companies more professional than they have been in the past. If UK companies intend to sell in that market, they must have as good, or better, products than their EEC competitors, delivery schedules at a competitive price. Failing to do that not only means that they will not be getting an increase in sales, but also they will be faced in their home market with increased competition from firms in the other EEC countries.

(11) EEC membership, in the view of another firm, gives credibility with their customers as they have now developed a pro-European bias.

(12) A company attributed its sales increase wholly to Britain's accession to the EEC market. They would have expected their volume of trade to have been lower had Britain not joined the Community.

(12a) Entry into the EEC helped a company to meet increased sales in the home market and not in the EEC. It did help in moving goods between them and their affiliates in the EEC countries when needed.

Table VI-6

The factor assessed for comparison between expectations in 1974 and what had happened by 1976, is summarised in Table VI-6. This is the effect of the devaluation of the £ on trade with the EEC countries after the UK membership. The related question, in 1974, accordingly called for an answer on its effect on trade in one of three options: significantly, marginally, or not at all. The scores of the expectations, as Table VI-6 indicates, were:

3 companies expected significant help to their trade.

7 companies expected marginal help to their trade.

2 companies expected no help at all.

What has happened, as each company sees it:

(1) Devaluation of the £ helped in making the products cheaper for export. It is difficult to quantify the effect because it came at a time when inflation was increasing and absorbing the effect of the devaluation.

(2) It did not help the trade because during that period, 1974-1976, the performance of the UK economy was poor.

(3) It helped to offset the rate of inflation as it compensated the increasing cost of the inputs.

(4) A company that imports 80% of its raw material was directly affected by the devaluation of the £ as production costs increased. At the same time it helped their export performance.

(5) Devaluation of the £ affected the trade of a company to a greater extent than the elimination of tariffs which were only 5%.

(6) The £ being weak has overshadowed the advantages of joining the EEC which has been noticeable in one advantageous area, i.e. the elimination of tariffs.

(7) A company whose prices are quoted in US $ and determined by the group, kept a flexible pricing policy by quoting the £ or the US $, whichever was most compatible and profitable. Again regarding the transfer of goods between the groups' affiliates, the currency quoted is determined by the parent company to complement the sales pricing policy.

(8) It helped significantly a company whose import bill for raw materials stayed the same. That was because the home prices were taken into account by the foreign dealers.

A general shared effect between all the companies was that the devaluation of the £ has compensated for the increase in the rate of inflation.

Table VI-7

In this table we assessed the expected increase of competition in the UK market from firms in the other EEC states in the years 1974-1976. As Table VI-7 reads, all the firms assessed, except for two, expected that firms in the EEC countries would expand their trade to the UK market as a response to the UK membership and the consequent gradual reduction in tariffs.

Again Table VI-7 summarises what happened to these expectations, and the following are explanations:

(1) Penetration of the UK market by EEC countries' competitors was helped by Britain's entry to the Common Market.

(2) Multi-national companies in countries not members of the EEC, e.g. USA or Sweden, in realizing the opportunity offered to them in a larger market, Europe, have put greater effort and new investment in plant in EEC countries to compete in the Community's market with the national firms in the EEC. As a result some national UK firms experienced increased competition in the home market from such companies.

(3) For a firm that produces a highly specified, and technically superior product, the UK membership has not had an impact on competition in the UK market.

(4) Penetration of the UK market by firms from the EEC countries was caused by introducing types of product new to the UK market. This was backed up by premium price, an intensive advertising campaign, a novel form of display, and an efficient distribution network. These factors

increased competition in the home market for a UK consumer goods firm, rather than the new conditions created for EEC competitors due to Britain's membership.

(5) A firm which expected the competition in the UK market to be the same after the membership was accurate in its forecast. Its production was based on quality which meets the buyer's standards in the home market that similar products in the EEC did not meet. This company, Ferodo Ltd., has an advantage over its EEC competitors in that it not only produces what is suitable for the UK market, but also produces what the EEC market requires.

(6) A small company in the car industry, Foden Ltd., stated that there is competition coming from the Germans and French in the UK market. However, its share of the home market has not been affected. This increased competition affected British Leyland's share of the market.

(7) In the clothing industry, penetration of the UK market is difficult because of price differentiation and the time needed for competitors to adjust the products to new styles and designs.

(8) EEC competitors expanded their trade to the UK market, but as one firm put it, "not at their expense". The reasons given were an increase of total demand despite the general recession, and advantages in prices and quality.

(9) Devaluation of the £ was a factor of divergence from expectation of increased competition in the UK market by EEC firms, as it made their prices dearer relative to those of home products.

(10) Concentration of buyers on a number of major manufacturers in the UK made it easier for EEC firms to get to know the demand required and so get involved in the market.

(11) The UK, being a very big potential market, probably the largest outside West Germany for certain commodities, e.g. packaging and packaging materials, offered the necessary psychological effect on the EEC competitors to begin operations in it.

(12) The EEC glass processors, and the Belgians in particular, have increased their sales to the UK market, not only because the UK has joined the Community, but also because of the extremely low prices they were able to quote.

(13) EEC manufacturers were able to have a share in the UK engineering market by locating new plants here. They were encouraged by the low labour cost in Britain.

(14) Small EEC manufacturers were able to capture a share of the UK market from large British manufacturers due to the better services they provided. However they did not pose a serious threat.

IV Grouped Approach

A. Size of the firm

As stated before, when we chose the case studies we were aware that they should be a representative sample, hence they should include large, medium and small firms. Each size differs from the other in structure,

internal and external elements, and in behaviour. Accordingly these differences affect the performance of each size, induce its attitude, and govern its situation in the European Community.

However, we ought to mention that the analysis according to size of firm, under the grouped approach is condensed and explanatory, since it is part of a wide scope of analysis and since the detailed investigation of such a factor would be the subject of a separate and comprehensive study that involves many numbers of variables. These are:

- Characteristics (e.g. types of undertaking, turnover, capital input).
- Economic functions (e.g. production, distribution, after-sales service).
- The importance of each size for the economy and society (e.g. employment, training, distribution of wealth and sociological importance, technical progress, protection and shaping of environment).
- Internal structure (e.g. labour, cost, assets, liabilities, expenditure, organization).
- Effects of national policies (e.g. economic policy, regional policy, social policies, competition policy, fiscal policy).
- Private or semi-state assistance (e.g. business associations).

Moreover the setting up, the methodology and the objectives of such a study would be different from those of ours.

(1) Position of small-size firms

The following is an analysis of their position in the market:

- Britain's accession to the Community meant nothing to some small firms as their capacity was not in a position to be stretched.

- Characteristics and special features were obstacles to trading with the Community:

  i. Weak negotiating position in both buying and selling.

  ii. Decision making being the sole responsibility of the manager, who is usually the owner, and lacking the support of pre-decision processes, e.g. market research.

  iii. Difficulty in obtaining funds from the capital market.

  iv. The executive staff not specialized to any real extent.

  v. Absence of technology and R & D programmes.

- Mainly, their trade is in the local market, since they enjoy considerable flexibility in meeting individual requirements and special orders.

- They lack the organisation that is needed to deal with a market as large as that of the EEC.

- Competition conditions are not in their favour, since they cannot compete with the large firms' prices as they lack technical efficiency and economies of scale.

- Language barriers, the burden of paper-work, and the cost of transportation worked as an obstruction to trade.

- Lack of past experience in trading in the market, as against some competitors who had a foothold in the UK market, were disadvantages.

- Small firms are not market leaders in price, product specifications, or innovations, so it is their competitors at home and in the EEC who dictate terms and practices that the small firms cannot afford to follow, let alone compete against.

- Planning product programmes are prohibited by the reality of their production processes, which are usually conducted according to orders received at short notice. This is not a favourable condition for penetrating the market.

- Efforts made to approach the market as explained in two case studies:

  Visits to potential customers.

  Advertising campaigns.

  The two firms stated that the first approach had not produced any results in terms of orders, and the second was discontinued as it proved to be costly and was also not very successful.

- Long trade prospects were faint, as one small manufacturer received only one order from the market. This even went wrong when it came to payment.

- Prospects of trading with countries in Africa and the Middle East, other than in Europe, were more promising, since competition from national firms in these markets are either rare or primitive.

- Expanding in the EEC market by buying new plant there was dismissed on the grounds of lack of capital. The reverse was possible for a firm expected to be acquired by an EEC firm.

(2) Position of medium-size firms

As we indicated in Chapter IV, the factor that we depended on to classify the manufacturing units as large, medium or small, was the number of employees.(*) The medium size firms near the boundaries of the small size or the large firm category, tend to follow the characteristics, features, structure and performance of that other group. Consequently we find most literature, case studies and research concentrating only on the small, large and international or multinational operations. This is for several reasons. Firstly, these groups are dominant in business enterprises, secondly those sizes are clear cut to be followed and analysed and, thirdly, because of the floating characteristics that medium-sized firms enjoy.

Professor R. E. Thomas,(77) as he evaluated business policy studies, drew attention to the product life cycle as it emerges, matures, then declines. We can consider the medium-sized firm as falling into one of the two first stages, emergent and maturing, as far as its expansion is concerned and not its product cycle. It is, in these two stages of its life that its characteristics float between the other two size groups.

(*) Up to 499 regarded as small firm.
500 - 1999 regarded as medium firm.
2000 & over regarded as large firm.

The experience that we drew out of the case study firms is evidence to the above observation. As we analysed the replies in the above descriptive approach we did not find any special features that governed the position of the medium-sized firms in the enlarged market.

However, the distinctions between them and the other size-groups are as follows:-

- They neither share with the small firms the deficiences which hinder their position in the market, nor do they enjoy the forces that enhance the performance of the large-size group.
- Spare capacity was a feature that helped them to penetrate the market.
- Potential expansion as an objective constitutes a preferable approach to the enlarged market.
- Risk, enthusiasm and exploration are medium-sized behavioural concepts needed to enter into a competitive market as such.
- As they are usually in the maturity stage of their cycle (i.e. adaptable to changes and new ideas) flexibility in adaptation to the requirements of the market was available.

(3) Position of large-size firms

We identified the large-size firms in this study as those that employ 2000 employees and over, but the term large-size is a wide concept unless clearly identified.

Other identifications criteria could follow: turnover, capital input or qualitative characteristics like management, organization and forms of finance.

It also includes those firms that Professor R. E. Thomas[78] termed "... engage in international transactions, whether as importers, exporters or providers of services internationally ..." It includes too those firms in which, as he put it, "... a minority that actually goes so far as to acquire a firm abroad (international operations) ... or those firms that ... represent an extension of international operations ... to the point where the interests of the organisation transcend those of any country in which it operates, including that from which it originated (multinationals)".(*)

Whatever the concept that would brand the firm as large in size, they all share certain features and characteristics (carrying different weights) that gives them a special position and affects their performance in the enlarged market. The following is an analysis of their position and those effects.

- They enjoy technical efficiency, and economies of scale that enable them to compete against rivals'p rices.
- Applying the latest in technology and having constant use of the R & D departments.
- Ability to raise the funds needed for expansion in the market.

(*) Op. cit. Ref. No. 78,

- The relationship with their affiliated companies in various EEC countries, helps in reallocation of factors of production and final products.

- For companies that had plants in one or more of the EEC countries, entry did not affect their operations. Thus, decisions to start new ventures depended entirely on their investment programmes, the economic conditions in the country involved, and on the viability of the new operation.

- Overseas expansion is a way of growth and survival for large firms. The EEC (amongst others) was a familiar market in that regard, especially when concentration at home had exhausted the market or when the domestic economic situation prevented them growing.

- As international trade and investment have weakened the links binding large firms to their national economies, overseas sales and overseas production accounts for a substantial proportion of their total output. Again the EEC countries were a natural trading outlet.

- Harmonisation plans for the European operations were put forward before entry and executed after the accession to the market.

- Large firms, especially the multinationals, have three features which are ingredients of success. These are better communications, improved organisation and control within the firm, and rising income.

- They tend not to be evenly distributed across industrial sectors, but are concentrated in a limited range of activities. In general, they are to be found in industries with some of the following characteristics: the operations are capital intensive, the products are highly differentiated, and marketing skills play a major part.

- Multinational companies purchasing policies were better placed as they are situated in most of the EEC countries and hence could negotiate supply agreements across the Continent. They also might have operations in extractive industries which enable them to obtain access to raw material supplies.

B. Special features firms may possess which give them a special position in the extended market

Some manufacturers possess special features and characteristics which helped them in penetrating the enlarged market. These include the following:

- Past experience in trading with countries in the EEC, helped in the immediate exploitation of the new situation arising from Britain's membership.

- Production of a wide range of products, made it possible to meet the demand needed for different applications of the products.

- Advanced technology in a number of sectors of a company's activities gave it a superiority over its competitors as a specialist and pioneer in its field.

- Ownership by a holding company that is rooted in the market, makes it easier to penetrate that market.

- Licences and patents which some companiespossess give them a special position in the enlarged market.

- Exchange of knowledge with EEC competitors and distributors builds up a relationship that enhances trade.

- Monpolistic conditions through government purchases in the home market give the necessary economies of scale which in turn provides a base of strength to compete overseas.

- Diversification, helped in controlling component supply, hence keeping production on schedule and meeting delivery dates.

- Capturing a sizeable share of the home market was an important element in penetrating the EEC market.

- Well known brand names, accompanied by advertising campaigns, were a feature given as an advantage over competitors.

- Constant innovation in colour and fashion made a company a brand leader at home and in Europe.

- A company that produces a complementary range of products, of which one or two are superior to their competitors, helped to push all their range in the market.

(C) Product market

The analysis here follows the type of the product market, industrial or consumer goods, as each has different characteristics that influence the pattern of performance of firms engaged in them.

Areas of differenc could be summarised in the following:

I Derived Demand

The demand for capital goods is wholly derived from the demand for the goods they produce, whereas demand for consumer goods is independent. This proved to be true as regard engineering and car components case studies firms.

II Price elasticity

Industrial goods manufacturers are rarely able to expand their markets through price reduction, while demand of most sectors of consumer goods is highly responsive to price changes. The former was a reason for the neutral effect of tariff reduction to many case study firms.

III Long manufactiring cycle

With few exceptions, such as housing and spirits, consumer goods are manufactured in a relatively short period of time, often counted in minutes or hours, only occasionally days. Production of many industrial goods may be counted in weeks, months and years (e.g. a refinery requires years to come to operation).

The latter feature was a factor that affected the policy of a car producer towards entry. They refused to participate in the study as they stated that it would take a considerable time to produce a new model. So, for them, entry has no effect at least in the short-run.

IV Market Concentration

Geographic and industrial concentration are features of industrial goods,

while consumer goods are widely spread in density and usage. More than one case study firm made that apparent in the existence of their affiliated companies in the EEC countries, long before the entry, as a complementary plant.

V Distribution Methods

There is a clear distinction between the methods by which consumer and industrial goods reach the consumer or user. The vast structure of the consumer goods distributive trades fulfils this function, but the needs of industrial purchasers are frequently met by direct contact between suppliers and purchaser. This would explain the need that arose, after entry, for some case studies firms to build new distribution facilities either as preparation to entry or in order to meet the requirements of the new demand.

CHAPTER VII

TRADE PERFORMANCE: THE EFFECT OF ENTRY ON SELECTED MANUFACTURING PRODUCTS

The abolition of trade barriers between the UK and the EEC was expected to result in a reallocation of resources: that is, away from activities in which producers cannot compete successfully without the shelter of a tariff and towards activities experiencing rising demand from the newly open markets of the other member countries of the EEC.

Sectors which would decline would be industries which are inefficient, in relation to the average level of efficiency in the country concerned. In other words, industries which are at a comparative cost disadvantage.

Expanding sectors, by way of contrast, would contain industries which enjoy positions of comparative cost advantage.(*)

However, UK industry, because of Britain's accession to the EEC, would be affected not only by the process of trade creation just described, but also by the diversion of trade away from other countries. A given industry in the UK may experience a growth of sales not only because it has a comparative cost advantage - through replacing domestic sources of supply in one of the EEC countries, but also because the continued existence of a tariff, or other trade barriers, against imports from other countries encourages buyers in the EEC to only buy within the EEC, i.e. switching away from third country goods.

The question arises, what is the identity of each promising, and unpromising economic sector? The provision of an answer to this question

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(*) This account of the distribution of production according to comparative cost analysis assumes other factors (such as monopolies, discriminatory transport policies, taxation, and regional policies) being equal.

would clearly be important to industry in Britain and in the other EEC countries, and also to governments. For instance, the British government would wish to have the earliest possible notice of the prospective decline, because of its relatively high costs, of some particular industry, especially if it were predominantly situated in a development region, and a labour intensive activity.

Previous studies[79] tried to contribute to the answer of this question. In their studies, as well as in ours, a fundamental problem is raised by the fact that only manufacturing industry is dealt with. In other words, the effects of Britain's accession to the EEC upon activities other than manufacturing have not been considered.

One source of the difficulty is the fact that in the long run the consequences of British entry for any particular economic activity, like manufacturing, are in part determined by the effect upon other sectors.

Assume, for instance, that EEC membership results in a substantial improvement in Britain's balance of trade, vis-a-vis the EEC, in goods other than manufactures and, perhaps particularly important, in services, and that this improvement is not offset by a worsening balance on other accounts. Provided the overall balances of payments (i.e. each partner's balance vis-a-vis the world as a whole) had initially been in equilibrium, the UK balance would now be in surplus (and the EEC's balance in deficit), and a rise in British prices relative to EEC prices (and prices in the rest of the world) would be called for to restore a balance of payments position for each area. However, this rise in relative prices would have adverse consequences for the position in the Common Market of all British industries, including those comprising the manufacturing sector.

The opposite conclusion would hold if the effect of EEC entry upon non-manufacturing activites were such that the balance of trade in the items concerned were to worsen appreciably or if there were other adverse effects upon the UK balance of payments. In order to restore a balanced payments position, relative British prices would have to fall, with beneficial consequences for British manufacturing and other industries.

Similar conclusions are reached if the problem is considered not with reference to the balance of payments, but in terms of the distribution of resources in the short run. A substantial rise in the output of non-manufacturgin industries, including services, as a result of increased exports, or import substitution, would imply a relative, if not an absolute reduction in the quantity of resources available to the manufacturing sector, and thus in the output it could produce. With the same token, a decline in non-manufacturing activities would make more resources available to manufacturing industry and thus permit the output of goods for export and/or of import substitutes to be raised.

How valid are the arguments in the last few paragraphs? There is no reason to suppose that the various parts of the manufacturing sector are in a similar competitive position vis-a-vis the EEC.

In other words, some manufacturing industries are much more likely to be able to expand output and exports than are others. It follows that the neglect in various studies of non-manufacturing activities does not prevent an ordering of manufacturing industries with reference to each industry's relative position in an enlarged EEC. Therefore, manufacturing industry A, which is higher in the order than industry B, is more likely to

find itself with demand for its goods growing (or less likely to experience falling demand and output) than industry B.

In the following pages a rank order is presented of 209 manufacturing commodities in eight different industry sections. The rank order of the chosen commodities would indicate the comparative cost position of each in relation to the rest of the EEC market.

The basis of this ranking is export performance of UK manufacturing industry in the rest of the EEC and of the rest of EEC manufactures in the UK over the period 1973-1975.

Items placed towards the top of the order of the 209 commodities are goods in which, on the evidence of past trade performance, the UK's competitive position, relative to that of the EEC is strong. Items at the lower end of the order are commodities in which the UK's record, again in relation to that of other EEC countries, is poor.

The basic hypothesis is that the pattern of trade, prior to the abolition of tariffs and of other trade barriers, provides an indication of underlying comparative cost conditions. In turn, this would be one of the determinants of the pattern of trade, and hence of domestic production, after the enlargement of the Common Market.

There are reservations which ought to be made regarding the proposition just set out.

The ultimate aim of any research into the effects of UK accession to the EEC upon British manufacturing industry is to predict which industries will raise their output above what it would have been in the no-entry case, and by how much. Similarly to single out the sectors whose output is likely to be adversely affected. With reference to this objective a comparative cost rank order does not get one very far as a number of other determinants, many of them presenting very serious statistical problems, are also involved. To explore this point the following should be stated:-(*)

(i) The effects of EEC entry on a particular British manufacturing sector will also depend on the size of the markets opened up by the removal of trade barriers. For example, the British producers of an item in which the UK appears to be very competitive may find that the scope for raising exports to the EEC is relatively limited, because the proportion of total EEC demand which they supplied, even before the removal of the EEC tariff, was quite high. In the case of a second product, in which the UK trade record has been somewhat less good though the item is still fairly high in the order, the EEC market may as yet be largely unexploited, and the opportunities for raising exports to the EEC, either at the expense of EEC producers, or of other countries suppliers, or both, may therefore be excellent. Corresponding arguments apply to the growth of U.K. imports.

In general, in order to establish the scale of the effects of the EEC's enlargement upon British manufacturing industry it is necessary to go beyond an examination of comparative costs. One must take into account the proportions supplied presently of both the British and the EEC market from

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(*) Op. cit., Ref. No. 4.

the U.K., EEC and then third country producers respectively. For two of the elements involved - trade between the UK and EEC, and imports from third countries - it is easy enough to obtain the necessary data. However, the third, and no doubt the most important factor, domestic UK and EEC output for the home market, presents very considerable statistical difficulties, especially at the level of disaggregation required for such a study.

(ii) The extent to which a particular British industry can expect to raise exports to the partner above what would otherwise have been, also depends on the reactions of local and third country producers to the relative cheapening of the British commodity brought about by the tariff reduction. They may adjust their terms in order to meet the new competition, or alternatively prefer to switch resources into other activities. It is not easy to see how this problem could be handled satisfactorily as part of a statistical analysis and without intimate knowledge of the products and markets involved.

(iii) The third point concerns the balance of payments implications of the increase in trade flows. Additional U.K. exports of the goods in which the U.K. is reasonably competitive would, in themselves, tend to improve the U.K. trade balance. The growth of imports of goods placed towards the lower end of the rank order would worsen the British payments position. The difference between the increases in exports and imports must accord with whatever balance of trade on manufactures as a whole would be compatible with the requirement that both the U.K.'s and the EEC's overall balances of payments (vis-a-vis all countries) would be in equilibrium. If this condition is not fulfilled, the effects of a general price adjustment would have to be accounted for in the analysis. A relative fall in UK prices

bringing about an additional expansion of exports and a reduction in imports relative to the initial increase, a rise of UK prices would have the opposite effect. Changes in relative prices would also affect UK and EEC sales to, and purchases from, third markets. These would have to be brought into the picture as they clearly influence both partners, balance of payments position.

(iv.) Finally, mention must be made of the time factor. In projecting the effects of EEC entry upon particular manufacturing industries it would not be sufficient simply to take past data relating to consumption, trade, etc., and then somehow to superimpose the presumed effects of EEC entry. The only satisfactory procedure would be to construct a no-entry case; to forecast what the pattern of consumption and trade, and hence production, would be by the end of any transition period, assuming the UK does not join the EEC, and then to consider in what EEC entry may be expected to alter that position.

In the light of these considerations it is clear that a complete projection of the effects of UK accession to the EEC, upon British manufacturing industry, requires very much more than the mere ranking of products on the same basis of some rather crude criteria of competitiveness.

<u>This is another reason why the study in hand follows more than one way in its investigation of the effect of British entry into the EEC upon trade in manufacturing industry</u>.

A comparison of the foreign trade performances of the UK and the EEC, for a study as such, could either relate to each area's exports to the other (mutual trade analysis), or to the exports of each area to neutral markets (third country export analysis). The advantage of such mutual trade analysis is that it does not only take account of variations in cost conditions as between different industries in the two areas, but that the outcome will also be affected by the pattern of demand for manufactures in the participating states.

On the other hand, mutual trade analysis suffers from the disadvantage that it is in practice not possible to allow adequately for the effect of differences in trade barriers between the UK and the EEC.

Third country export analysis, by way of contrast, is deficient on the demand side but frequently escapes the problem of differing trade barriers. However, it would certainly not be true to say that there are no differences between the trade restrictions which British and EEC exports face in the rest of the world.

In view of their respective drawbacks, there are no obvious reasons for preferring one approach to the other.

Foreign trade comparisons can take the form of investigating the levels of trade over a given period of time, or the changes of trade between one period and another; on balance the former was preferred. Analysis of relative changes over time is liable to result in misleading conclusions, because trade performances in the base period may have been very unequal.

Although there are ways of dealing with this problem, there is the practical point that serious statistical difficulties would be encountered.

Exports of a particular good can be related to imports of that good in a number of ways. The method chosen for the purpose of this research is the very simple and straightforward method, that is of taking the difference between the two i.e. the balance of trade of the commodity concerned.

It may be wondered why the relationship between exports and imports was not expressed as an export/import ratio, especially as this procedure has been adopted in other investigations.(80)

It is trust that the export/import ratio automatically takes account of variations in the importance of different commodity groups, but on the other hand, it fails to indicate whether or not the small size of mutual UK/EEC trade, in a particular item, is accompanied by a similarly low value of trade among the EEC countries. This point is of considerable significance for the study in hand. For instance, it appears important to distinguish between two goods g and h, both strong goods for the UK (i.e. UK exports to the EEC exceed imports from the EEC by substantial margins) and both relatively insignificant in mutual trade. However, in the case of good 'g' trade among the EEC countries is also relatively insignificant, suggesting that the market is small, whereas in the case of good 'h' there is substantial internal trade in the EEC. The result is that UK exports to the EEC in relation to internal trade are below average. The straightforward interpretation of the situation is that the producers of 'h' are in a less strong position, vis-a-vis the EEC market than the

producers of 'g', provided the influence of trade barriers has been allowed for. The export/import ratio fails to point this out. The difficulty could only be met by dividing the export/import ratio by an indicator of market size, such as total EEC/UK intra trade. The result would be that ultimately nothing is gained in relation to the trade balance approach, and something is lost, because the index number obtained after dividing the ratio, by EEC/UK intra trade is much less easily interpretable.

It is important to note that our study was not able to take into account the point raised above because the data of total EEC/UK intra trade for the years 1973-1975 was neither available nor complete at the time of undertaking this exercise. So, the method adopted has not been able to take account of the market size.

However, the weakness of the previous point, has been balanced by an advantage regarding the tariff barrier. A major objection against the analysis of mutual trade data is its failure to take account of trade barriers.

Clearly, British exports of i to the EEC in relation to imports of i from the EEC, may be more favourable than the equivalent trade balance for j, because the UK tariff on i is much higher than that on j whereas, say, the opposite is the case in the EEC. A favourable trade balance for i in relation to the that for j may thus be the outcome of the existing tariff structures rather than indicating differences in comparative costs. In other words, the order should be drawn up on the basis of trade data from which the influence of tariffs has, in principle, been eliminated. This

means that an attempt has to be made to estimate what additional trade flows there might have been between the UK and the EEC had tariff barriers not been in existence.

Our study has an advantage, which similar studies in the past were unable to enjoy, as we used trade figures which allow for the gradual reduction in tariffs, commencing 1st January 1973 - the date the UK became a member of EEC - to the target of zero rate which had been reached on July 1977. On this latter date the UK would have completed the transitional period to full entry into the community's custom union. The following table shows this process.

Completing the customs union
How the new Member States fitted in

Date	Intra-Community Tariffs	Quantitive Restrictions	Moves towards Common External Tariff
1973 Jan 1	-	Removed from most goods	-
Apr 1	Cut by 20%	-	-
1974 Jan 1	Cut by 20%	-	40%
1975 Jan 1	Cut by 20%	Removed from 'sensitive' products	20%
1976 Jan 1	Cut by 20%	-	20%
1977 July 1	Cut to zero	-	Common tariff

Notes

(1) For beef and veal, each tariff change was due at the start of the marketing year, and the 40% move towards the common external tariff in 1974 was replaced by two moves, in 1973 and 1974, of 20% each. The same timetable applied to the 'fixed components' protecting processed cereals, rice fruit, and vegetables.

(2) For horticultural products, the first 20% cut in intra-Community tariffs, and a first 20% move towards the common external tariff, took place on January 1, 1974, and the last tariff change in each case is to be delayed until January 1, 1978. Each tariff change has likewise been subject to a 10% tolerance since January 1, 1975.

(3) For other agricultural goods, including fishery products, the first 20% cut in intra-Community tariffs was delayed until July 7, 1973.

Source: European Community July/August 1977.

One of the simplifications resorted to in the present study is the treatment of the EEC and the rise of the world "ROW" trade each, as one unit instead of handling the trade, as a breakdown of UK export (or UK import) to or from the EEC or the ROW, by the country of destination or origin. The reasons are:-

a) It was important to treat the whole EEC market as one industry governed by unified identical application.

b) The scope for trade diversion in favour of UK Exporters would, clearly, depend on the extent to which the EEC market would be supplied by third country producers in the absence of UK accession to the EEC. Again, it was important to consider the ROW as one unit irrespective of country of destination or country of origin of goods.

The following is the approach we followed to reach a ranking order for the 209 commodities.

i) The products covered are 209 products which fall under the following groups of industry:-

A. Chemicals
B. Manufacturers of leather, rubber, wood, paper and non-metallic minerals.
C. Textiles and clothing.
D. Iron and steel.
E. Non-Ferrous metals and miscellaneous metal manufacturers.
F. Mechanical Engineering
G. Electrical Engineering.
H. Transport Equipment.

These industries groups, together with the commodities in each group listed according to the SITC are in Appendix IV.

ii) The commodity classification employed follows that of the UK overseas trade statistic, (OTS) prepared by Her Majesty's, Customs and Excise, whereas the trade statistics are arranged according to the standard International Trade Classification (SITC).

iii) The data for each group Section of industry were collected for the years 1973, 1974 and 1975. Tables were constructed for the presentation of the data as follows:
UK export to EEC, EEC export to UK, UK exports to ROW and ROW exports to the UK.

iv) The balance of trade between the UK and the rest of EEC for each product in the group was calculated for each year. The same balances of trade between the UK and the ROW was also computed.

v) The average of the trade balances between the UK and the EEC for the years 1973 - 1975, for every product in each section was computed. The same averages for the balances of trade between the UK and ROW were calculated.

vi) The averages of the trade balances are then placed in a descending order from favourable to unfavourable, hence a ranking order was deduced for each product in the section of industry it belongs to. The products are, then, assigned to Classes in an arbitrary classification as follows:-

£000				Class
over			10,000	I
4,999	-		9,999	II
1,000	-		4,998	III
1	-		999	IV
(-) 1	-	(-)	999	V
(-) 1,000	-	(-)	4,998	VI
(-) 4,999	-	(-)	9,999	VII
under		(-)	10,000	VIII

These are in tables VII-1 to VII-8 as for the UK/EEC and tables VII-9 to VII-16 as for UK/ROW.

TABLE VII-1

Ranking order of trade in chemical products for the averages trade balances between the UK and EEC 1973-1975

SITC	Values (000) in descending order	Rank order	Class
541.7	26583	1	I
512.2	19114	2	
512.1	13744	3	
541.3	12854	4	
599.7	6909	5	II
533.3	6902	6	
599.2	6698	7	
531.0	5507	8	
581.3	4674	9	III
533.1	2973	10	
514.3	2646	11	
554.2	2009	12	
571	1670	13	
553.0	1241	14	
561.2	1195	15	
581.9	994	16	IV
433.2	662	17	
512.4	307	18	
532	220	19	
514.9	-259	20	V
541.1	-438	21	
513.5	-728	22	
513.3	-788	23	
521	-1350	24	VI
514.2	-1590	25	
513.2	-2014	26	
551	-2460	27	
512.5	-3315	28	
512.7	-3882	29	
513.6	-4742	30	
512.3	-6400	31	VII
561.1	-7016	32	
561.3	-10387	33	VIII
599.5	-18826	34	
512.8	-19976	35	
581.1	-39324	36	
581.2	-55257	37	

TABLE VII-2

Ranking order of trade in manufactures of leather for the averages trade balances between the UK and EEC 1973-1975

SITC	Values (000) in descending order	Rank order	Class
667.2	194411	1	I
613.0	13240	2	
642.9	7111	3	II
611.9	5560	4	
641.9	4590	5	III
662	2876	6	
664.4	2779	7	
641.5	2636	8	
666.4	1623	9	
841.3	1320	10	
621.0	786	11	IV
632.4	503	12	
611.3	502	13	
663	345	14	
612.0	287	15	
629.1	-367	16	V
641.1	-605	17	
661.2	-834	18	
665.8	-958	19	
641.6	-1505	20	VI
642.1	-1749	21	
664.3	-2078	22	
611.4	-3093	23	
641.3	-4089	24	
631.2	-4559	25	
831.0	-4586	26	VII
631.1	-6221	27	
641.2	-6965	28	
665.2	-7244	29	
665.1	-15548	30	VIII
821.0	-18655	31	
851.0	-34803	32	

TABLE VII-3

Ranking order of trade in textiles and clothing for the average trade balances between the UK and the EEC 1973-1975

SITC	Values (000) in descending order	Rank order	Class
653.2	12951	1	I
657.6	8187	2	II
657.5	7874	3	
651.2	7641	4	
655.8	4552	5	III
653.7	2871	6	
651.7	2125	7	
656.6	1968	8	
651.4	1548	9	
653.3	1281	10	
841.4	1177	11	
651.5	990	12	IV
841.5	704	13	
653.4	461	14	
657.4	52	15	
656.1	42	16	
654.0	38	17	
651.3	-806	18	V
656.9	-971	19	
655.6	-981	20	
653.1	-1086	21	VI
841.2	-1268	22	
656.2	-1917	23	
652.1	-4133	24	
653.6	-7810	25	VII
655.4	-8850	26	
652.2	-12741	27	VIII
841.1	-15085	28	
651.6	-26408	29	
653.5	-30365	30	

TABLE VII-4

Ranking order of trade in Iron and Steel for the average trade balances between the UK and the EEC 1973-1975

SITC	Values (000) in descending order	Rank order	Class
676	3521	1	III
672.5	1959	2	
678.1	1408	3	
679	1129	4	
671.2	533	5	IV
671.5	236	6	
677.0	198	7	
678.5	-111	8	V
672.3	-714	9	
673.4	-1814	10	VI
673.5	-1836	11	
671.4	-2140	12	
673.1	-2991	13	
674.7	-3293	14	
674.8	-3585	15	
678.2	-5370	16	VII
673.2	-10584	17	VIII
674.2	-11560	18	
675.0	-12064	19	
678.4	-14689	20	
672.7	-16407	21	
674.1	-27024	22	
678.3	-43935	23	
674.3	-76576	24	

TABLE VII-5

Ranking order of trade in Non-Ferrous Metals for the average trade balances between the UK and the EEC 1973-1975

SITC	Values (000) in descending order	Rank order	Class
683.1	36016	1	I
681.1	26473	2	
681.2	21709	3	
685.1	16676	4	
687.1	12736	5	
698	9929	6	II
684.1	7870	7	
282.2	7221	8	
683.2	6234	9	
695.2	1881	10	III
689	1540	11	
686.2	197	12	IV
692.1	-444	13	V
685.2	-585	14	
696.0	-1055	15	VI
694.1	-1439	16	
697.1	-1685	17	
693.1	-1786	18	
694.2	-3985	19	
691.1	-4186	20	
697.2	-4347	21	
684.2	-12183	22	VIII
282.1	-13263	23	
686.1	-17927	24	

TABLE VII-6

Ranking order of Mechanical Engineering Products for the average trade balances between the UK and EEC 1973-1975

SITC	Values (000) in descending order	Rank order	Class
714.3	38094	1	I
711.5	20457	2	
712.5	18062	3	
711.4	8520	4	II
719.9	7415	5	
718.4	-43	6	V
717.2	-115	7	
718.5	-897	8	
719.4	-1306	9	VI
712.1	-1416	10	
718.3	-1718	11	
711.3	-1987	12	
718.1	-3015	13	
719.2	-3458	14	
717.3	-3807	15	
719.3	-4047	16	
714.2	-4207	17	
719.8	-4258	18	
715.2	-4567	19	
719.5	-6753	20	VII
718.2	-7120	21	
719.7	-7422	22	
717.1	-8726	23	
712.2	-14077	24	VIII
719.6	-14517	25	
714.1	-15110	26	
715.1	-23659	27	
719.1	-29805	28	
714.9	-49735	29	

TABLE VII-7

Ranking order of trade in Electrical Engineering Products for the average trade balances between the UK and EEC 1973-1975

SITC	Values (000) in descending order	Rank order	Class
724.9	11673	1	I
729.9	10569	2	
723.1	5919	3	II
729.1	3448	4	III
729.6	2304	5	
891.1	2205	6	
723.2	687	7	IV
729.5	-61	8	V
729.2	-581	9	
812.4	-2847	10	VI
729.4	-3820	11	
726	-4264	12	
891.2	-7192	13	VII
724.1	-9075	14	
724.2	-9574	15	
729.3	-10325	16	VIII
722.1	-12041	17	
722.2	-24494	18	
725.0	-41364	19	

TABLE VII-8

Ranking order of trade in Transport Equipment Products for the average trade balances between the UK and EEC 1973-1975

SITC	Values (000) in descending order	Rank order	Class
732.8	79828	1	I
733.3	29257	2	
734	27709	3	
732.3	21678	4	
732.4	5042	5	II
732.7	1272	6	III
732.2	554	7	IV
732.6	204	8	
731	-66	9	V
733.1	-1218	10	VI
732.9	-4294	11	
732.5	-11875	12	VIII
735	-14178	13	
732.1	-196467	14	

TABLE VII-9

Ranking order of trade in Chemical Products for the average trade balances between the UK and ROW 1973-1975

SITC	Values (000) in descending order	Rank order	Class
541.7	142171	1	I
599.7	68854	2	
581.2	52966	3	
581.1	46210	4	
531.0	43328	5	
599.2	38292	6	
533.3	31557	7	
581.3	25400	8	
553.0	24436	9	
514.2	24320	10	
512.5	23725	11	
533.1	22458	12	
512.2	22313	13	
554.2	19580	14	
571	12328	15	
541.3	10257	16	
512.1	10011	17	
514.3	9431	18	II
533.2	4576	19	III
561.1	3683	20	
512.4	2319	21	
513.5	1836	22	
561.2	1118	23	
512.3	830	24	IV
541.1	773	25	
551	642	26	
599.5	456	27	
532	174	28	
513.3	-1865	29	VI
521	-2241	30	
581.9	-3429	31	
514.9	-7442	32	VII
512.7	-11946	33	VIII
561.3	-14565	34	
512.8	-16504	35	
513.2	-22098	36	
513.6	-22804	37	

TABLE VII-10

Ranking order of trade in Manufactures of Leather for the average trade balances between the UK and the ROW 1973-1975

SITC	Values (000) in descending order	Rank order	Class
667.2	57270	1	I
629.1	48558	2	
663	26101	3	
662.0	23086	4	
621.0	23018	5	
821.0	14257	6	
666.4	13912	7	
661.2	9622	8	II
642.9	9567	9	
664.4	9502	10	
612.0	5667	11	
665.8	4673	12	III
613.0	3810	13	
611.9	3730	14	
665.2	3427	15	
642.1	424	16	IV
664.3	270	17	
611.3	209	18	
665.1	-267	19	V
631.1	-3139	20	VI
841.3	-4179	21	
611.4	-4338	22	
632.4	-5740	23	VII
831.0	-9505	24	
641.6	-22055	25	VIII
851.0	-25595	26	
641.9	-30653	27	
641.5	-38648	28	
641.2	-62858	29	
631.2	-109257	30	
641.3	-125197	31	
641.1	-141718	32	

TABLE VII-11

Ranking order of trade in Textiles and Clothing for the average trade balances between the UK and the ROW 1973-1975

SITC	Values (000) in descending order	Rank order	Class
653.2	69977	1	I
657.6	42112	2	
651.6	35274	3	
653.7	25427	4	
651.2	20452	5	
651.7	17398	6	
655.8	12057	7	
655.4	8348	8	II
653.3	5839	9	
657.4	3904	10	III
651.4	3679	11	
651.5	3617	12	
841.5	3422	13	
656.6	2228	14	
655.6	2076	15	
656.2	839	16	IV
653.1	-34	17	V
653.6	-381	18	
656.1	-718	19	
654.0	-3670	20	VI
653.4	-5970	21	VII
652.2	-7559	22	
841.2	-7874	23	
657.5	-12203	24	VIII
651.3	-14206	25	
656.9	-17150	26	
653.5	-44917	27	
652.1	-50597	28	
841.4	-57923	29	
841.1	-157074	30	

TABLE VII-12

Ranking order of trade in Iron and Steel for the average trade balances between the UK and the ROW 1973-1975

SITC	Values (000) in descending order	Rank order	Class
674.7	32847	1	I
678.2	27616	2	
673.4	25414	3	
673.2	21559	4	
674.8	20043	5	
677.0	19281	6	
678.5	19139	7	
679.0	13440	8	
674.3	12197	9	
673.5	11289	10	
675.0	9515	11	II
676.0	8769	12	
678.1	8038	13	
672.5	7907	14	
673.1	4146	15	III
674.1	1865	16	
672.3	-131	17	V
674.2	-3534	18	VI
671.2	-4651	19	
678.3	-6584	20	VII
678.4	-7661	21	
671.4	-11863	22	VIII
672.7	-12480	23	
671.5	-47378	24	

TABLE VII-13

Ranking order of trade in Non-Ferrous Metal Products for the average trade balances between UK and ROW 1973-1975

SITC	Values (000) in descending order	Rank order	Class
282.2	59184	1	I
698.0	58051	2	
691.1	54366	3	
681.2	51697	4	
695.2	26001	5	
693.1	18345	6	
696.0	12216	7	
683.2	8118	8	II
694.2	5764	9	
692.1	4218	10	III
686.2	1216	11	
685.2	686	12	IV
694.1	-200	13	V
687.1	-530	14	
697.1	-1059	15	VI
697.2	-5310	16	VII
684.2	-8797	17	
683.1	-12480	18	VIII
689	-13295	19	
681.1	-21307	20	
686.1	-41213	21	
685.1	-43440	22	
684.1	-54987	23	
282.1	-260131	24	

TABLE VII-14

Ranking order of Mechanical Engineering Products for the average trade balances between the UK and ROW 1973-1975

SITC	Values (000) in descending order	Rank order	Class
712.5	183741	1	I
711.5	182564	2	
717.1	120139	3	
711.4	112274	4	
719.8	110594	5	
718.4	101084	6	
719.2	91305	7	
719.9	81899	8	
715.1	49581	9	
718.5	45536	10	
719.1	35435	11	
719.6	27688	12	
711.3	24782	13	
718.3	24068	14	
718.2	22858	15	
718.1	22469	16	
719.5	20656	17	
715.2	20561	18	
712.2	13397	19	
712.1	8843	20	II
719.7	6946	21	
717.2	6202	22	
714.1	6132	23	
717.3	2807	24	III
719.4	1662	25	
714.2	-4597	26	VI
714.9	-9089	27	VII
714.3	-23697	28	VIII
719.3	-46413	29	

TABLE VII-15

Ranking order of trade in Electrical Engineering Products for the average trade balances between the UK and ROW 1973-1975

SITC	Values (000) in descending order	Rank order	Class
724.9	96784	1	I
722.1	93468	2	
723.1	72070	3	
722.2	32254	4	
729.5	26339	5	
729.9	24523	6	
725.0	21347	7	
729.1	16271	8	
729.4	12641	9	
729.2	11472	10	
726	10625	11	
812.4	8707	12	II
729.6	7949	13	
723.2	4510	14	III
891.2	-1950	15	VI
891.1	-6037	16	VII
729.3	-50775	17	VIII
724.1	-50998	18	
724.2	-56870	19	

TABLE VII-16

Ranking order of trade in transport equipment products for the average trade balances between the UK and ROW 1973-1975

SITC	Values (000) in descending order	Rank order	Class
732.8	362871	1	I
732.1	190784	2	
732.3	171244	3	
735	88070	4	
734	55187	5	
732.7	29631	6	
732.4	25427	7	
733.1	22780	8	
733.3	20393	9	
731	15250	10	
732.2	11442	11	
732.6	3	12	IV
732.9	-14732	13	VIII
732.5	-18366	14	

As it was stated, the approach to the analysis depends on the average trade balance for the period 1973-1975, other than using the trade balance for each year. This is meant to satisfy the following:

(a) To re-distribute the effect of the reduction of tariff, that ought to be isolated and/or considered year by year.

(b) To average the rate of inflation for the years 1973-1975. As for the inflation rate no attempt has been made to adjust the trade figures to a base year, say 1970. The pre-adjusted trade figures are being used in the imports and exports side valued in the same currency, sterling. By so doing, the effect of the rate of inflation on the trade figures was offset and taken care of.

Again Tables VII-1 to VII-16 are a summary of the industries' trade record by class performance, mutual trade ranking, which indicates the balance of mutual UK/EEC trade in the products concerned, and of mutual UK/ROW trade for the same products.

As the purpose of the above analysis is only to indicate the comparative cost position of the products in the relevant industry section, we should emphasize the following:

(a) The discussion makes no attempt to deal with the 209 commodities individually. Rather, comments that we will reveal in the conclusion restricted to points which appear to be of special interest. The reasons for adopting this treatment are partly a matter of length, and partly to reflect awareness that the kind of comment required would demand intimate knowledge of individual products and markets.

(b) The assignment of a commodity to a class, scale category, does not carry with it any firm indication as to the direction of the effect of UK accession to the EEC upon the product. All that can be said is that there is tentative evidence that the British producers of items placed in Class I, have done well in the sense that their output has been larger than it would have been if the UK remained outside the EEC, and vice versa with regard to British producers of commodities found in Class, say, V or VI.

(c) It is also important to remember that individual UK producers of any given item will not necessarily all be affected in the same way. For example, a particular product may be assigned to Class IV, and although British producers as a whole might therefore have found the going relatively hard, there might well be manufacturers which are rather more favourably, or alternatively less favourably, because of supply or demand factors peculiar to the firm.

But what do the above Tables VII-1 to VII-8 tell us? Relying on the hypothesis introduced at the beginning of this Chapter regarding Comparative Cost Analysis, it has been assumed that the rank order of the products and the class performance assigned to it would indicate the comparative cost advantages that those product enjoy. Hence, it could be concluded that Class I products have performed favourably in the last three years, 1973-1975, since the membership and; everything being equal; have a high potential opportunity in the market, Class II products enjoy the second place, and so on. Class V to Class VIII products faced severe competition and exporters to the UK market, from the rest of the EEC countries, have an opportunity cost advantage over the British producers.

As for Tables VII-9 to VII-16, that are concerned with UK/ROW product trade performance and the Class it is assigned to, it could be read in the same way as above.

A comparison between the corresponding product in both UK/EEC and UK/ROW relative tables would indicate different product performances. That is to say a particular UK product that enjoyed a favourable performance in the EEC market could do the same, face the adverse situation or perform better in the ROW. This would depend on the differences of the UK producers' comparative cost advantages in relation to the competitors in each area, EEC or ROW.

So far, this chapter has sought to present the underlying hypothesis of the method used in the analysis, the justifications for using it and the difficulties overcome in applying it. We also described the steps taken to reach a rank order of the chosen products. Then we introduced the rank order achieved, with a brief conclusion to what it meant.

However, for analysis as such, undertaken in this chapter to be comprehensive and fully meaningful, one would:

(i) discuss the results obtained for each industry section with reference, in detail, to the comparative cost position of the relevant products;

(ii) relate the results obtained by this rank order to those of similar studies.

(iii) Compare the above results with the overall performance of the UK trade figures.

Nevertheless, this is a task that is out of the scope of the study in hand; which calls for and stands to be a separate study.

What we will undertake is to:

(a) deduce conclusions from the above analysis;

(b) compare the results of the UK/EEC products rank order which those of the UK/ROW for each industry.

(c) relate, whenever possible, the finding of the preliminary and main surveys to the results obtained from the above analysis.

These are in Chapter VIII, the Conclusions.

CHAPTER VIII

RESULTS AND CONCLUSIONS

We concluded the study in hand at the time of the West's summit meeting in Bonn, West Germany, which took place during the period 16-17 July 1978 between the leaders of the seven most industrialized western countries: Canada, the Federal Republic of Germany, France, Italy, Japan, the United Kingdom of Great Britain and Northern Ireland, and the United States o f America. The European Community was represented by the President of the European Council and by the President of the European Commission for discussion of matters within the Community's competence. The declaration at the end of the two-day economic summit contains measures covering growth, employment and inflation, international monetary policy, energy and trade.

Regarding this comprehensive strategy, as the world will wait, hopefully, for it to be met, we can emphasise that the conclusions of our study is concerned directly with one or two of its measures. However, this is not the place to elaborate, since we have to indicate, first, the plan we shall follow in this chapter and the discussions that will take place accordingly.

We projected that the conclusions would be drawn as follows:

8.1 The results obtained from the preliminary survey (the questionnaire).

8.2 The results acquired from the trade analysis.

8.3 The results we reached from the analysis of the case studies in the main survey.

8.4 Summing up.

8.1 Results of the analysis of the preliminary surveys (the questionnaire)

We believe that the right start to this section is with a table that summarises the results obtained from the preliminary questionnaire. In this Table VIII-1, we have left out the introductory questions which gave us a background to the firms that responded to the questionnaire, and we concentrated on those questions which reflect their attitudes and expectations.

Table VIII-1 shows, and the analysis in Chapter IV indicates, that the advantages of joining the EEC and the expections of increasing sales in the extended market, are shared by many companies in the three size categories, large, medium and small firms.

It also shows expectations of obtaining economies of scale and of achieving greater efficiency which were attributed to the reduction of tariff, and hence to increased sales. Also most firms thought favourably of Britain's entry into the EEC in relation to their expectation of increased trade.

This conclusion, regarding the advantages of the tariff reduction and its impact has also been reached by a survey conducted by "The Times" business news.(*) Taking part in the survey were company chairmen of the largest industrial and financial companies in this country.

(*) David Blake, foreign editor, business news, "The Times, April 9, 1975.

(*) Table VIII-1: Summary of Responses to the Preliminary Questionnaire

Summary of the questions asked	Numbers of responses		Class of responses	Large firms		Medium firms		Small firms	
				Numbers of responses		Numbers of responses		Numbers of responses	
	Total	of which		Total	of which	Total	of which	Total	of which
Had your company any manufacturing establishment(s) in the original EEC countries before 1st January 1973?	136			25		29		82	
		30	Yes		15		12		3
		106	No		10		17		79
Did you trade before 1 January 1973 with any of the six EEC countries	125			17		24		84	
		100	Yes		17		18		65
		25	No		0		6		19
If not									
Do you now (after the enlargement of the Community by entry of Britain, Denmark and Ireland)	25			00		6		19	
		3	Yes		0		1		2
		20	No		0		4		16
		2	No response		0		1		1
If yes									
What did you expect the effect on your trade would be after Britain had joined the Community?	100			17		18		65	
		70	Favourable		10		14		46
		29	No change		6		4		19
		1	Unfavourable		1		0		0
Expectation of the effect of tariff reduction on sales volume?	126			26		33		67	
		105	Increase		21		28		56
		18	No increase		5		5		8
		3	Not known		0		0		3

(*) Source: Chapter IV, the preliminary survey, the questionnaire.

If you already traded with the EEC countries (and if Britain had not joined the Community) would the company expect the volume of the trade to be unaffected by UK entry?	114			23		27		64	
		47	Yes		7		12		28
		67	No		16		15		36
To what extent has the floating rate of the pound (£) helped exports to the EEC countries, i.e. as a result to the effect of the devaluation of the £ .	133			25		31		77	
		38	Significantly		5		10		23
		56	Marginally		17		14		25
		39	Not at all		3		7		29
Expectation of increased competition in Britain from firms in the rest of the EEC countries following Britain's adherence to the Community	142			25		33		84	
		88	Yes		16		25		47
		54	No		9		8		37
<u>If Yes</u>									
How will it affect, directly, the volume of trade of the company in the home market?	88			16		25		47	
		43	No change		5		11		27
		39	Shifts in favour of competitors		8		11		20
		6	Not known		3		3		0
<u>And</u>									
To those who expected "shifts in favour of competitors", they were asked how they would meet the new competition	39			8		11		20	
		3	Cutting prices		1		2		0
		25	Improved products		5		9		11
		10	Improved production methods		1		0		9
		1	Others		1		0		0
Did they have the intention to change methods of marketing and distribution in the extended market?	121			27		32		62	
		56	Yes		10		19		27
		65	No		17		13		35

Did they expect to be able to sell the same kind of product in the enlarged market?	142	122	Yes	26	23	31	26	85	73
		20	No		3		5		12
If not									
What is the change that would be applied to the product?	20			3		5		12	
		10	Minor change		1		3		6
		5	Major change		1		1		3
		5	Completely new product		1		1		3
Plans for direct investment in plants in any of the EEC countries	139			24		31		84	
		24	Yes		5		8		11
		115	No		19		23		73
Economies of scale expected to be obtained with the increased trade in the extended market	122			19		26		77	
		81	Applicable		9		19		53
		41	Not applicable		10		7		24
Greater efficiency expected to be offered by the competition in the market	135			25		31		79	
		80	Applicable		14		22		44
		55	Not applicable		11		9		35

Again, an opinion poll conducted by "Opinion Research Centre" on behalf of the "Economist"(*) showed that the membership of the EEC, i.e. the advantages obtained from the extended market and the tariff reduction, have helped significantly 50 large firms and 34 others of a smaller size. These represent one third of the respondents in the above survey.

That was proof of the points made by pro-marketeers, who argued that the creation of an integrated Europe would provide a large and rapidly growing domestic market for UK industry, and it was evident in the responses we received to our preliminary survey, as far as the expectations of increased sales after the entry into the EEC were concerned. Most of the firms that responded to the questionnaire expected an increase in their sales volume, with different percentages, due to tariff reduction.

This means that the firms we surveyed see Britain's entry into the EEC as advantageous to their trade and so to their operations. That conclusion was mentioned by most firms, but with different justifications.(**)

The above conclusions coincide with the CBI Europe Committee Report(***) in 1975 which put its case decisively in favour of Britain's entry into the Community. It said, "The European Community is creating a single

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(*) The Economist, December 29, 1973 and May 17, 1975.

(**) See Chapter IV, Comments on Q.16.

(***) British Industry and Europe; A report by the CBI Europe Committee, March, 1975.

integrated industrial and economic entity, free of tariffs and other barriers to trade, with its fiscal, legal and financial environment harmonised to facilitate the operations of industry and commerce of a fully continental magnitude. The Community will accordingly achieve the wide base essential to industries involved in advanced technologies or benefiting from economies of scale, it promises its enterprises free access to a market of 260m people for their goods and services; it provides ..."

The CBI report went on to reflect the views of its members by asking them their opinions on the main economic considerations of the advantages they thought they gained from UK membership of the EEC. The wide range of factors mentioned by trade associations and companies can be summarised as follows:

- British industry and commerce can ill afford to be at any trade disadvantages in the EEC market, which is of vital importance for UK visible and invisible exports.

- Trade benefits already gained or in prospect by the end of the transition period.

- Tariff free access to the EEC is essential for British industry to exploit the potential offered by its largest and nearest export market area, and recoup ground lost during our exclusion.

- Secure access to the larger market.

- The need to create a harmonised environment in which industry can operate effectively on a European scale.

- A share in the Community's economic growth.

- Trade benefits already gained or in prospect by the end of the transition period. A number of the companies reported a dramatic increase in exports to the EEC in the first eighteen months of membership despite:

  (a) the still far from complete removal of tariff barriers;

  (b) the swamping of the effects of some tariff changes by exchange rate fluctuations;

  (c) the considerable pressure of demand on capacity during 1973;

  (d) the need to build up marketing and service facilities in the EEC countries;

  (e) the need to adapt standards, styles, and specifications to suit the requirements of the EEC customers."

This report is without doubt a support to our findings. The interesting thing is that it was conducted in 1975, just after our preliminary survey had taken place, in 1974.

However, as the preliminary survey in our study is part of a wider research involving case studies and trade analysis, than that of the CBI, we ought to include in the conclusions, relating to the questionnaire, what was read from the analysis in Chapter IV and Table VIII-1, and not to confine it only to the advantageous expectations, which were sustained by the Times, the Economist, and the CBI publications.

So the other main conclusions of the findings of the preliminary survey could be summarised as follows:

Most of the firms surveyed had no manufacturing establishment(s) in the six EEC countries before 1st January 1973. Large firms, as they were usually international or multinational companies, had, as expected, more establishment(s) than the medium-size or small-size firms. It followed that each firm size had implemented different policies towards investment plans or expansion programmes in the extended market.

It was also revealed that most of the respondents had traded with one or more of the EEC countries before entry. It was interesting to note that small firms shared with the large and medium size firms in that respect. This means that past experience in trading with the market is there and would help as a starting base for the exploitation of, and the adaptation to, the new conditions created by joining the Community. Examples of those new conditions are elimination of tariff, custom union, product standardization and access to a larger market on an equal footing.

Of those who had not traded with one of the EEC countries before entry, only three firms started trading after. This low percentage in the past trade experience can be interpreted in the knowledge that those firms had to go through different policies, marketing and capital appraisals in order to start trading. Moreover, the full advantages of the elimination of tariffs were not at work at the time the questionnaire was answered.

Another indication that Britain's being a member of the EEC had raised the expectations of British manufacturers of increasing their sales volume, was illustrated by those firms who traded with one of the EEC

countries before Britain's entry. As the majority expected that their trade would be affected by the no entry situation, devaluation of the £ with the floating exchange policy was as much a help to trade as the gradual elimination of tariffs. This produced a favourable effect (either significantly or marginally) for the majority of firms that responded to the relevant question.

Increased competition in the home market, due to Britain's adherence to the Community, from firms in the other EEC countries was expected by 62% of the firms surveyed. Of them, 49% expected that this new competition would not change their sales volume, though 44% expected that the EEC competitors would capture part of their sales in the home market with the effect that the shift in trade would be in favour of the competitors. 7% were not certain of the possible effect. To those who expected shifts in trade in favour of the competitors, the possible policies to meet the new competition were expressed as follows:

8% would cut their prices.

64% would improve their products.

25% would improve their production methods.

3% would face the new competition with other means.

It is clear from breaking down the above intended policies that improved products is the available and well-supported policy (improvement could be either in the usage, the quality or the services relating to the product). Cutting prices as a further option received less response, as they would not follow this avenue in view of the price-cost relationship.

In breaking down how each size group expected the effect of entry on competition in the home market, it was the medium size firms (76% of the respondents), then the large size group (64% of the respondents) that most expected increased competition. The small-size group were divided nearly equally between expectation of increased competition and no increase. This result is in harmony with the past trade experience in the market for each size group, as establishing a foothold in the market of one of the original six EEC states would generate a motivation on the part of the competitors to invade the UK market, even before entry. This process would have been helped by Britain's membership. On the other hand, this result is the outcome of the similarity of structure and product standards of these size groups, with those of their counterparts, their competitors, in the other EEC states.

When companies were asked if they expected to change their methods of marketing and distribution, their responses were that 47% expected changes to be carried out after the entry and 53% expected no change. This corresponds with the expectations of increased trade after the entry which would necessitate agents being appointed, opening direct outlets, or increasing the number of sales representative visits. Also the no change expectation correlates with the already established trade relationship.

Only a small percentage of firms (14%) stated that they would not be able to sell the same kind of products that they produced at the time of the questionnaire. Of them, 50% were planning only a minor change to their products, the rest were divided between either the need for a major

change to be applied to their existing products, or introducing a completely new product. This adaptation to the products market requirements is in line with products standards either set out by the directive concerned in the EEC Commission or those decided by different industry federations in the EEC countries. These are usually labelled as technical barriers to entry.(*) However important this point as an obstacle to the flow of trade in the Community, we should direct attention to two valid observations. The first is that 86% of firms questioned stated that they expected to be able to sell their existing products. Secondly, we should not assume that all the changes needed to be applied to the products were necessarily called for to meet the standards mentioned above. Changes could be required to satisfy the consumers' behaviour in the different EEC countries.

Plans for direct investment in plant, in any other member states, were ruled out by 83% of firms. This intention was a well-calculated forecast as it brought the projected investment in any of the EEC countries, after the entry, into reciprocal relation to the decline in industry investments that materialised in 1973, 1974 and 1975.(**)

Greater production efficiency and economies of scale were expected to be obtained by the majority of firms (59%, and 66% respectively) due to the projected sales increase in the extended market after Britain's accession.

(*) Since 1969, when the Council of the Six adopted an ambitious programme, based on Article 100 of the Rome treaty, for the removal of technical barriers to trade, only about 100 such directives have been approved. However, this point will be fully covered later when we discuss the results obtained from the case studies.

(**) See the CBI industry statistics publications.

This and the other expectations discussed above will be assessed to see what actually took place in the forthcoming section when we reveal the results obtained from analysis of the case studies.

However, the following are the conclusions drawn from the analysis of the preliminary survey discussed in Chapter IV. It complements those foregoing results we reached from looking at Table VIII-1 :

I. Contributing factors

Table VIII-1 indicates the responses to the question of the expectations of those firms who traded with one or more of the original six EEC members before entry. The following are features as to why Britain's membership for them is not an effective factor on their existing trade relations:

(A) Tariff Elimination

As tariff reduction would help in reducing prices - other factors being equal - the firms that have well-established markets prior to EEC entry would not have competitive pressures eased for them as their sources of competition are not mainly price orientated. Also tariff reductions have been offset by increase in costs due to the higher inflation rate.

(B) Nature of buyers

Some firms' products are dependent for their sales on EEC countries' government expenditure programes. Hence membership of the Community is not a determinant factor to sales increase.

(C) Nature of Products

Some firms produce products that by their characteristics are uneconomic to export (e.g. plastic mouldings), so for them the no entry situation is the same as the entry case.

Trade in aerospace products in West Europe does not appear to have been greatly affected by entry into the Common Market, as aerospace manufacturers, including UK companies, have always operated on the basis of a worldwide market. Sales tend to be sensitive to factors such as collaborative links (which existed long before entry), political, technical, military factors, and in the case of civil sales particularly, to the credit which the manufacturer can offer.

A textile manufacturer stated that the immediate effect of entry on their trade was slight, as short term changes are unlikely on textile products.

Trade in capital plant and equipment is usually concluded on the basis of technology involved irrespective of market place, custom union, or economic agreement.

Finally, factors attached to the products (e.g. technical superiority, after-sales services and efficient agents and sales organisation) were expressed as reasons for long past trade experience with the EEC, this would not be affected by entry.

(D) Other barriers to entry

Some firms expressed pessimistic expectations because of the effect of

other barriers to entry(*) that overweighted tariffs, and which Britain's entry would not overcome.

II. Firms' Comments

In the preliminary survey, firms were asked to comment on the advantages or the disadvantages they expect in relation to their trade, due to Britain's membership. The following are illustrations of what firms, in 1974, expected:

(A) Advantages

An engineering multinational company with subsidiaries in the original six EEC countries, expected, because of Britain's membership, to be able to create a more uniform and more efficient base for trading within the group.

This is in line with what James Livingstone(**) describes "... many enterprises ... seized opportunities to create new markets or have reacted to external circumstances favourable or unfavourable." He adds when discussing the alternative, organizational structures in international business, and under the regional HQ system, "... the European Economic Community may best be treated as a unit with subsidiary companies specializing by products over the whole market instead of each trying to produce a whole product range for each country."

(*) We shall analyse in detail the effect of those barriers later. Examples of those barriers are taxation, nationalistic attitudes, product standards, etc.

(**) James M. Livingstone, The International Enterprise, Associated Business Programmes Ltd., 1975, pp. 91-99.

It might be what the multinational in the preliminary survey had in mind by its expected uniform approach. This we shall assess, in this chapter, when we conclude with the results obtained from the case studies, that is the reorganizational structure firms undertook after the accession.

Other advantages sought by firms in 1974 were:

- Greater customer interest.
- Improved transport facilities
- Positive attitude towards British Manufactures
- Better business relationships
- The psychological advantage of being a member of the same community operating on equal terms.

That is of course over and above the expected benefits relating to sales due to the elimination of tariffs, that was accompanied by the devaluation of the pound sterling.

(B) Disadvantages

- The market is by no means a perfect free market, as protectionism still exists. Britain is probably losing out as the original six members have experience of protecting their own market, whilst appearing to be free.
- Insufficient experience, lack of funds, limitations in capacity, are hindrances to trade as far as small firms are concerned.

- Nationalistic attitudes in more than one country in the EEC.

- Expected increased competition at home.

These are the expected disadvantages which were expressed in 1974 added to the other barriers to entry that will be discussed.

(C) General attitude towards Britain's membership

1. Expressed by large-size firms

- Benefits from EEC entry are marginal and do not offer major advantages. The falling value of the pound provides greater competitive advantages.

- Firms that were already exploiting the market before entry, expected no major change, as they made, long ago, the necessary adjustment to products and marketing.

- Heavy capital goods manufacturers expected the least gain from entry as their products are usually of a one off, specialised nature.

As far as capital plant goods are concerned, membership would not have expected to make any difference in the structure or the size of the market available to them.

2. Expressed by Medium-size firms

- Plants that produce technical products are not price sensitive and expected only small sales volume changes.

- Breaking down tariff and non-tariff barriers are important to sales increase expectations but still adaptation of products to market requirements is more important.

- Medium size firms that traded before 1973 with EEC countries, shared the large size firms' expectations that membership would have a negligible effect on their trade.

- Firms that produce components for motors and motor generators deal directly with electrical vehicles manufacturers according to needs and specifications, expected no effect of Britain's membership as their trade would be concluded with the buyers concerned inside a custom union, an economic community or outside it.

- Many firms attached more weight to the devaluation of the pound that affected their sales rather than any incentive arising from entry.

- More product specialisation sought by firms other than those they would have previously planned.

3. Expressed by small-size firms

- A long time is needed to adapt products, structure and methods to the requirements of the enlarged market. As a small-size firm put it, "... it will be a very long time before trade with the EEC is as easy as selling in Wales."

- Again devaluation of the pound as a help to trade was expressed by small-size firms in the same way as large and medium size firms.

- Insufficient experience in trading with this market was expressed by some.

- An electrical transformer manufacturer expressed the inability to compete with a local EEC manufacturer as his products are heavy for their size as compared with most electrical apparatus, hence the cost of transport makes them uncompetitive.

- The market would benefit the large-size companies as this is the age of international organisations.

- Entry has helped firms with past trade experience in the market, to be more competitive.

- Anticipation of possible acquisition by expanded EEC firms, unless government financial help was introduced.

- In 1974, shortage of labour which resulted in delay in deliveries was expressed as a hindrance to trade.

- Increase in the burden of paper-work.

- High tax and restrictions on profit margins(*) would make it difficult to find the funds needed for marketing and machinery investment. As the opposite applies in more than one country in the EEC, prospects for increasing trade are grim.

III. Statistical analysis

Statistical analysis(**) was conducted in Chapter IV to establish the relationship between question 6 and question 7. Question 6 was designed to assess the expectation of the effect of joining the Community on the trade of the firms who traded with one of the EEC member countries before 1973 (favourable, no change or unfavourable).

(*) These were economic measures imposed by the government of the day.

(**) Tetrachoric correlation method to get the coefficient (γ) between the chosen variables.

Question 7 was assessing the effect of tariff elimination on the percentage of sales increase expected. The correlation between these two questions was high enough for all size firms, the entire population, all three size groups together.(*) Our conclusion is that the majority of firms expected an increase in their trade with the EEC after Britain's accession to the Community due to tariff elimination, as far as the statistical test is concerned.

(*) Computed "γ" was as follows regarding the correlation coefficient between Q6 and Q7 (Ref. Chapter IV)

Large size firms:	.93
Medium size firms:	.93
Small size firms:	.65
Entire population:	.78

8.2 Results of the Trade Analysis

8.2.1 Conclusions reached from the trade performance introduced in Chapter VII

In Chapter VII we produced a series of tables to rank 209 commodities under eight groups, sections, of manufacture (chemicals, leather and rubber, wood and paper, non-metallic minerals, textiles and clothing, iron and steel, non-ferrous metals and miscellaneous metal manufactures, mechanical engineering, electrical engineering, transport equipment). The basis of this ranking was the export performance of British manufacturing industry in the EEC against the imports of the same commodities from the EEC over the period 1973-1975. For comparative purposes the same analysis for these commodities was introduced for trade with the ROW in the same period.

The aim was to indicate the comparative cost position of each commodity in relation to the rest of the EEC market. Items placed towards the top of the 209 commodities are goods in which, on the evidence of of past trade performance, Britain's competitive position, relative to that of the EEC is strong. Items at the lower end are commodities in which the past trade record, again in relation to that of the rest of the EEC, is poor. As we indicated in Chapter VII, the basic hypothesis is that the pattern of trade in 1973-1975 provides an indication of underlying comparative cost conditions. This in turn would be one of the determinants of the pattern of trade and hence of domestic production after the membership of the Common Market.

The conclusions that could be drawn out of the above analysis, are as follows:

(1) Items placed towards the upper end of the rank enjoy a foothold in the EEC market and its producers have succeeded or have an initial success in the enlarged market. Those items are mainly placed in Class I and Class II.

Items placed in Class V to VIII are lacking competitive advantages in the EEC market.

(2) The use of this rank order, beside its indication of the comparative cost enjoyed by the products of individual industries, could, at the same time, indicate the direction of the EEC's effect upon the output of those industries, given the proportion of the UK consumption and the proportion of trade diversion from a third partner.

(3) A general proposition could be developed out of this analysis, namely that the growth of UK exports to the EEC would be concentrated on products in which the UK's trading performance has been relatively strong in the past, in other words, on items placed towards the upper end of the rank order, whilst that of UK imports; EEC exports; would primarily be in goods towards the lower end of the list.

In general the relationship between a commodity's position on the rank order and the direction of the effect of the EEC can only be a probability. Items at the top should be goods whose output would be favourably affected. As one moves down the list, the number of producers who would be able to raise output declines, whilst cases of producers that are adversely affected would increase in frequency.

Commodities found towards the bottom of the rank order are in general goods whose output would be lower than in the no-entry position.

(4) It is implied that somewhere away from the extremities of the rank order there would be a group of producers whose output would generally show little change one way or the other. Without a full exploration of the balance of payments implications of entry, which in turn needs a complete assessment of the entry effect on manufacturing industry, the actual position of these industries cannot be satisfactorily found.

(5) There remains, from finding the conclusions relating to Chapter VII, to compare the commodities' order reached in the UK/EEC trade performance with that of the UK/ROW. Comparison between performances of commodities to both geographical areas shows the following:

(A) Some commodities at the top of the rank order in the ROW market, have the same position in relation to the EEC. This implies an established international competitive position that is based on either comparative cost advantage, or a technological superiority. It follows that EEC membership, to the producers of such products, is not a significant effective factor to trade.

Examples of those commodities are Chemicals: (SITC 541.7), Medicaments, Textiles and Clothing: (SITC 653.2) Woollen fabrics, Woven "including fabrics of fine hair", non-ferrous metals: (SITC 681.2) Platinum and other metals of the platinum groups; unworked or partly worked. Mechanical Engineering: (SITC 712.5) Tractors; other than road

tractors for tractor trailer combinations, Electrical Engineering: (SITC 724.9) and other telecommunications equipment such as telephone apparatus, microphones, and amplifiers, Transport equipment: (SITC 734) Aircraft (SITC 732.3) lorries and trucks, whether or not assembled.

(B) Commodities that are at the top of the rank order of the ROW but in a lower position in relation to the EEC. The interpretation of a finding like this is that in the ROW those products have a traditional market established over the years either as a result of past trade association (EFTA), preferential trade agreements, special relationship as with the Commonwealth, or even comparative cost advantages. Therefore the competition it faces will be mostly from a third party who does not enjoy the same foothold. In the EEC these face severe competition either because the other EEC producers possess comparative cost advantages, or a high technology in their favour. They might face imperfect market conditions governed by unfair competition due to the incomplete elimination of tariffs (in 1973-1975) and other barriers to entry that are still in operation; state aids, differentiations in tax systems, nationalistic buying, state monopolies and public purchasing, technical and administrative obstacles, and cartels.

However, to decide what product falls under which market condition needs a thorough investigation and intimate knowledge relating to each product and its industry. This, as we stated before, is obviously outside the scope of our study. Examples of such products are: Chemicals (SITC 512.5), acids and their halogenated, sulphonated, nitrated or nitrosated derivatives (organic acids); Leather (SITC 821.0) Furniture Textile and Clothing (SITC 651.6) Yarn and thread of synthetic fibres, Iron and Steel: (SITC 674.7) Tinned plates and sheets, Mechanical Engineering: (SITC 717.1) Textile machinery, Electrical engineering (SITC 722.1) Electrical power machinery.

(C) Commodities that are in the opposite position to those described in B; that is, they are at the top of the rank order in the EEC, but in a lower class in the ROW. To interpret this it is valid to argue the opposite to what has been discussed in B above. We should add, however, that it is these commodities that are most related to our study. The immediate interpretation for their places in the rank order would be that the sales increase, due to Britain's accession to the market, that was expected in the preliminary survey was achieved by the firms chosen as case studies. But there are a number of considerations to be looked at in order to make such a proposition decisive.

- Elimination of tariff in the period of analysis (1973-1975 - the first three years of membership) was a gradual process that would not reach the zero rate until 1977. This implies that those commodities have not gained their foothold in the market as a result of a competitive price related to relatively small and ineffective tariff reductions.

- Those commodities are needed to be analysed individually in relation to their past trade records, total output, total domestic consumption, duties carried, and finally to factors of strength over EEC competitors either regarding the product or its industry. This is in order to establish the reasons behind its trade performance.

- The position of those commodities in top class in the rank order does not tell us where their position would have been in the no entry situation. The above analysis would not provide an answer to such a question.

However, the commodities position remains an indication of a comparative cost advantage in the market, and that it would have the opportunity of a continuation of a trade surplus after the completion of the tariff elimination and therefore of enjoying advantages that its industry could exploit from what membership offers.

Examples of such commodities are: Leather: (SITC 641.9) Other paper and paperboard in rolls or sheets, Textile and Clothing: (SITC 657.5) Carpets, carpeting and rugs, knotted; Mechanical Engineering: (SITC 714.3) Statistical machines, e.g. calculating devices.

(D) The last grouping in comparison are those products that share either the middle or bottom positions of the rank order tables for both UK/EEC trade and that of the UK/ROW.

Both are insignificant to our conclusions except for the obvious observations which can be read from this situation. That is that the overall global trade position of such products needs the same attention and efforts in order to increase their share in the world trade as for the EEC.

But for those products with deficit balances with the EEC, there is a possibility to improve its trade performance after the membership. That is because of the effect of the completion of the elimination of tariffs they can trade on an equal footing with competitors, and therefore the opportunities opened by the extension of the home market.

However, reservations should be noted with regard to the foregoing conclusions.

I. Foreign trade comparisons, by their nature, relate to a past period and therefore cannot take into account the influence of changes in the circumstances of particular industries during that period, for example while trade barriers were gradually abolished. These changes can come from the demand or the supply side, or result from government policy. Particularly important would be the case of an industry being in a market disequilibrium position during the period for which trade performances are being compared.

II. The procedure adopted in effect treats all traded products as independent of one another and therefore disregards relationships of a complementary character. The main practical application of this point arises in connection with goods which are used as inputs in the production of other products. Both in the UK and the EEC, the abolition of tariffs will alter the prices of inputs as well as the prices at which the outputs can be sold. This is likely to affect comparative cost relationship.

III The foreign trade data may be misleading as it is affected by the influence of institutional factors other than tariffs, for example, the operations of monopolies, preferential government procurement policies and differential tax systems, all of which serve to distort trade patterns.

8.2.2 Conclusions reached from the performance of the overall UK trade

To complete the conclusions of the trade performance with a more meaningful and decisive approach, one has to look at the overall performance of Britain's EEC trade.

The following tables, VIII-2, VIII-3 and VIII-4, represent the UK balance of trade with the rest of the EEC in the years 1970-1976, UK balance of trade by area in the years 1970-1976, and the crude trade balance with the rest of the EEC by commodity in the years 1972-1976.

TABLE VIII-2

UK BALANCE OF TRADE WITH REST OF EEC

	£ million			Percentage change on previous period Per cent
	Exports FOB	Imports FOB	Visible Balance	Exports as a Proportion of imports
1970	2348	2304	+ 44	101.9
1971	2512 (+7)	2697 (+17)	- 185	93.1
1972	2836 (+13)	3421 (+27)	- 585	82.9
1973	3943 (+39)	5108 (+49)	-1165	77.2
1974	5565 (+41)	7571 (+48)	-2006	73.5
1975	6258 (+12)	8606 (+14)	-2348	72.7
1976	9007 (+44)	11084 (+29)	-2077	81.3

Source: Balance of Payments Basis.

TABLE VIII-3

UK BALANCE OF TRADE BY AREA

£ million

	Other EEC	Rest of Western Europe	North America	Other developed countries	Oil Exporters	Rest of World	Total
1970	+44	+179	-484	+149	-113	+200	-25
1971	-185	+118	-171	+223	-188	+483	+280
1972	-585	-37	-79	-154	-131	+284	-702
1973	-1165	-277	-278	-202	-329	-83	-2334
1974	-2006	-358	-711	+93	-2219	-20	-5221
1975	-2348	-60	-676	-19	-704	+612	-3195
1976	-2077	-16	-822	-6	-709	+38	-3592

Source: Balance of Payments Basis

TABLE VIII-4

CRUDE TRADE BALANCE WITH REST OF EEC BY COMMODITY

£ million

SITC(R) Section	1972	1973	1974	1975	1976
0 Food and Live Animals	-498	-699	-1220	-1470	-1424
1 Beverages and Tobacco	-50	-111	-86	-66	-73
2 Basic Materials	+28	+2	+10	+28	-14
3 Fuels	-102	-105	-251	-313	-227
4 Vegetable Oils	-11	-13	-32	-30	-30
5 Chemicals	-14	-33	-107	-6	-76
6 Other Semi-Manufactures	+147	+182	-142	-184	+110
7 Machinery & Transport Equipment	-73	-321	-262	-229	-398
8 Other Manufactures	-34	-103	-127	-127	-88
9 Other goods	+27	+27	+20	+27	-2
TOTAL	-580	-1172	-2196	-2369	-2222
Crude Balance in some of the Major Commodities:					
Meat	-187	-238	-329	-310	-336
Dairy Produce	-103	-119	-259	-412	-324
Cereals	-49	-120	-284	-261	-360
Fruit and Vegetables	-79	-99	-129	-171	-211
Sugar	+2	-3	-68	-152	-58
Petroleum and Petroleum Products	-90	-105	-270	-343	-243
Plastics	-37	-62	-143	-61	-132
Iron and Steel	-29	-73	-293	-312	-315
Precious Stones	+78	+185	+184	+146	+289
Machinery	-16	-229	-202	-189	-277
Road Motor Vehicles	-104	-125	-94	-96	-238

Source: OTS Basis

1976 saw the first improvement in the UK's visible trade balance with the rest of the EEC since 1970. The deficit fell by £271 million between 1975 and 1976, to £2,077 million. Exports grew half as fast again as imports over this period, by 44% against 29%. The value of exports was 81% of the value of imports, the highest proportion since 1972.

These are the main conclusions of a study published by the Board of Trade and Industry.(*) This improvement in the UK's visible trade balance with her Community partners in 1976 was in contrast to the worsening of nearly £400 million in the balance with the world in total, despite a slightly faster rate of growth in exports rather than imports. This worsening was caused mainly by a sharp reduction in the trading surplus with the rest of the world, ROW, group, comparing the developing countries other than the oil exporting countries, and the centrally planned economies. There was also, however, a deterioration of nearly £150 million in the trading deficit with North America. The proportion of exports to imports with North America in 1976 was, at 79%, smaller than the proportion of exports to imports with the rest of the EEC, this for the first year since 1971.

The main changes between 1975 and 1976 have been improvements in crude trade balances for fuels and the 'other semi-manufactures' group, partly offset by increased deficits in chemicals and machinery and transport equipment.

Over 95% of the UK's trade in fuels with the Community consists of trade

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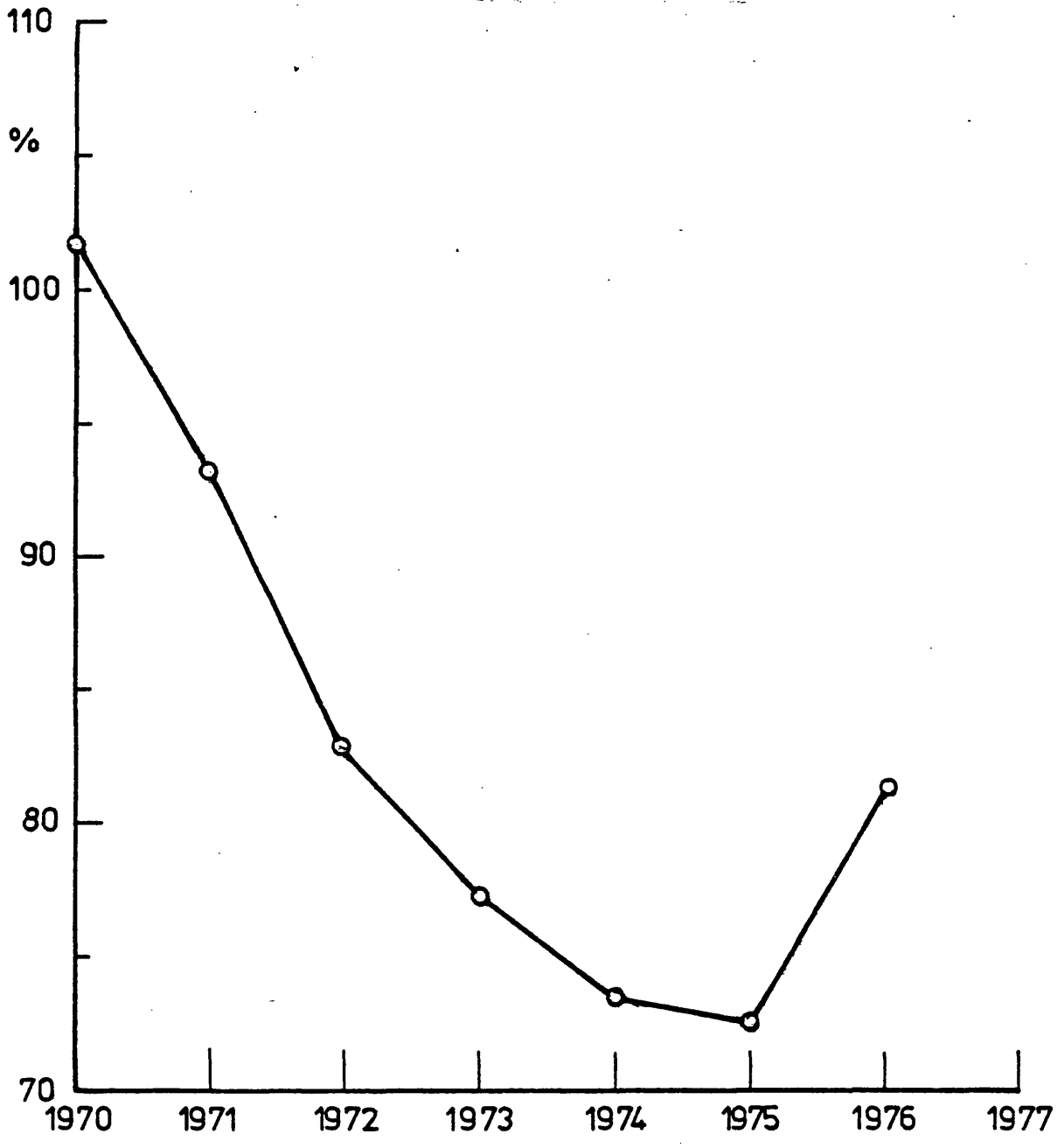
(*) Weekly "Trade and Industry", March 25, 1977.

in petroleum and petroleum products. The improvement of £100 million between 1975 and 1976 in the crude deficit in this commodity was the result of a 74% increase in exports, and a rise of 27% in imports. Part of the rise in exports was due to an increase in crude oil exports from £20 million in 1975 to £96 million in 1976. As for manufactured goods, the deficit with the rest of the EEC, after falling between 1974 and 1975 increased in plastics again in 1976. Sharply higher levels of both exports and imports reflected the increase in economic activity from the depressed 1975 level. While there was a little difference in the deficit between the 1974 and 1976 level, the value of exports in 1976 was 61% of the value of imports, while in 1974 the corresponding proportion was 43%.

Again as appears from Table VIII-3, the cumulative trade deficit between the UK and the EEC has risen to over £7 billion. However, as the following chart shows, Britain's trade deficit with the EEC began well before joining the Community, and in the first three years after entry the deficit increased at the same rate as before.

However, Britain's trade deficit with other industrial countries was getting worse too. For example, between 1972 and 1974 its trade gap with non-EEC European countries widened from £37m. to 358m. Since 1975 its trade balance with the EEC has been improving. Much of the increase in British imports from the EEC reflects the fact that Britain is buying more food from the EEC, and less from traditional suppliers. Food accounted for two-thirds of the 1976 deficit.

BRITISH EXPORTS AS A PROPORTION OF ITS IMPORTS, TO AND FROM THE REST OF THE EEC: PERCENTAGE CHANGE ON PREVIOUS PERIOD
(Ref. TABLE VIII –2).



(Balance of Payments basis)

It is clear that Britain's entry into the EEC has created a large amount of extra trade between them. Between 1972 and the first quarter of 1977, the value of British exports to the EEC rose by 282%, or about 87% after adjusting for inflation.

Table VIII-5 indicates the UK exports in the years 1965-1975 by value, volume and unit value. The total UK exports in the years 1973-1975 has increased from £11,772m to £18,768m. The corresponding increase in volume is 121.8 in 1973 to 124.9 in 1975 as 1970 = 100.

Out of that increase, in the period 1973-1975, the percentage shares of the UK exports of manufactured goods relative to the main manufacturing countries. This is shown in Table VIII-6. It was 9.4% in 1973, declined to 8.8% in 1974, and rose to 9.3% in a975.

An explanation is needed to interpret the preceeding overall trade fluctuations:(*)

For the Year 1973

(a) The international trading scene has been characterised by large increases in commodity prices and by substantial movements in the exchange rates of major currencies. These factors acted adversely

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(*) See British Overseas Trade Board's reports for the years 1974, 1975 and 1976.

TABLE VIII-5

UK EXPORTS 1965 - 1975

	£m Value	Volume 1970 = 100	Unit Value 1970 = 100
1965	4,848	76.9	79.3
1966	5,203	79.9	82.2
1967	5,139	78.9	83.4
1968	6,282	88.5	90.0
1969	7,075	96.7	93.0
1970	7,907	100.0	100.0
1971	8,810	106.7	105.6
1972	9,141	106.6	111.1
1973	11,772	121.8	126.0
1974	15,899	130.1	162.7
1975	18,768	124.9	198.5

Source: Balance of Payments Basis

TABLE VIII-6

PERCENTAGE SHARES OF MAIN MANUFACTURING COUNTRIES EXPORTS OF MANUFACTURED GOODS 1965-1975

	UK	West Germany	France	Italy	USA	Canada	Japan	Other main manufacturing countries
1965	13.8	19.2	8.8	6.8	20.3	4.6	9.4	17.1
1966	13.2	19.4	8.6	6.9	20.2	5.2	9.7	16.8
1967	12.2	19.6	8.5	7.0	20.4	5.9	9.8	16.6
1968	11.3	19.5	8.2	7.3	20.2	6.4	10.6	16.5
1969	11.2	19.6	8.2	7.3	19.3	6.3	11.2	16.9
1970	10.6	19.9	8.8	7.2	18.6	6.3	11.7	16.9
1971	10.9	20.1	8.8	7.3	17.0	6.0	13.0	16.9
1972	10.1	20.3	9.3	7.6	16.2	5.7	13.2	17.6
1973	9.4	22.1	9.6	6.8	16.0	5.0	12.7	18.4
1974	8.8	21.6	9.2	6.8	17.0	4.5	14.4	17.7
1975	9.3	20.3	10.2	7.4	17.7	4.2	13.6	17.3

Source: BOTB Report 1976.

upon the United Kingdom trading position and were largely responsible for the substantial increase in the visible trade deficit which worsened between 1972 and 1973.

(b) Oil prices, which increased during 1973, had contributed to the general rise in import prices. However, the very large price rises announced by OPEC, the Organisation of Petroleum Exporting Countries, only began to affect import prices towards the end of 1973, the major impact coming in 1974. Indeed, 62% of the total deficit in visible trade was due to the deficit in petroleum and petroleum products.

(c) The growth in the volume of export shipments (12%) reflected a recovery in the volume of world trade in manufactured goods which is estimated to have increased by 13-14 per cent, compared with 1972 increase (8%).

For the year 1974

(i) The major influence on the international trading scene in 1974 was the very steep increase in the price of oil; between 1973 and 1974 as a whole the oil deficit grew from £941m to £3,446m.

(ii) Four-fifths of the increase in the value of visible exports in 1974 was due to higher export prices.

(iii) The volume of world trade in manufactured goods slowed down slightly in 1974. The share of the UK's trade through 1974 remained fairly stable, but it was estimated to have risen at the beginning of 1975. This increase probably reflects the boost to the UK's competitive position given by the floating rate of sterling.

(iv) The value of goods despatched to Western Europe as a whole, which accounted for just over half of the total export, includes shipments to the EEC that were 37% higher than 1973.

(v) Manufactured goods, which accounted for 83% of all exports, increased in value by 31%.

(vi) Two-fifths of the increase in value of imports (51% on 1973 on a balance of payment basis) was accounted for by the higher value of imports of oil, which was 223% greater than in the previous year. Non-oil imports were 33% higher, nearly all accounted for by higher prices.

For the year 1975

1. The two salient features of Britain's overseas trade during 1975 were a marked reduction in the trading deficit and an increase in the country's share of world markets - only the second time this has happened in the past twenty years.

2. Again, the fall in the value of sterling helped to give the exports a competitive edge, though it also raised the prices of imports. It was also believed that sterling was already lower than was needed for British goods to hold their own overseas, and that the then exchange rate did not represent the underlying strength of the economy.

3. As a result of the halving of the rate of inflation in 1975, largely due to the government's policy on wage restraint, more realistic

export prices could be quoted, as exporters had a more realistic base for their wage costings than for several years past. Also customers had more confidence that prices would hold.

4. The UK share of world trade moved up half a percentage point to 9.3%. The most rapid increase in exports was to the oil exporting countries where the value of exports increased by 88%. Next came Western Europe with a 16% rise. These increases owed most to exports of machinery which held up well in the face of world recession.

5. The decrease in imports volume of 7% was more than counter-balanced by substantial price rises, with the result that the value of imports was greater in 1975 than in 1974 by 4%.

The conclusions just reviewed that relate to trade performance, have not been comprehensive enough. They were just a support to the arguments relating to the performance of manufacturing industries as a full trade performance analysis would have covered:

(i) Analysis of consumer consumption and its share in the import bill.

(ii) Analysis of total production, divided between consumption and what was left for export.

(iii) Detailed analysis of the components of the import and the export bill.

However, what we have concluded about trade performance so far, is useful to the relationships we intend to construct in the summing up and between them and the conclusions reached from the preliminary survey and the case studies.

8.3 Conclusions reached as a result of the analysis of the Case Studies:

In Chapter V and Chapter VI analysis of the data obtained in the Case Studies were carried out. The analysis followed several approaches.

Each approach covered certain variables that were chosen and analysed. Also in Chapter VI we constructed some tables (VI - 1 to V1 - 7) either for the purpose of the analysis of the firm's trade performance in the EEC or to summarise comparisons between expectations and actual results in the pilot and main surveys.

However, before we draw the conclusions from the previous analysis, it is necessary to construct a series of tables that summarise the responses of the firms studied(*), to variables, which on the one hand affected their performances and/or have been elements in business policies undertaken by them as a requirement for the enlarged market.

This is illustrated in tables VIII - 7 to VIII - 12, each table comprises a group of variables which affect the firm either in the planning stages, the implementation procedures, or in the effects on trade. These tables will help one to focus on the importance that the firms studied attached to each variable.

(*) To maintain the non-disclosure of information given to us assigned to the related firm, each case study was referred to by a number, the list of which is in Vol.2

TABLE VIII-7

Case Studies Reference Numbers	Factor Analysis									
	Re-organisational Structure			Changes applied to the products			New Policies			
							Marketing		Pricing	
	Carried	Expected	None	Major	Improve-ment	None	Carried Out	None	Carried Out	None
1			X			X *		X		X
2			X			X *	X		-	-
3	X				X			X		X
4			X			X *	X		-	-
5			X	X			X		X	
6		X			X			X		X
7			X			X		X		X
8	-	-	-			X	X			X
9	X				X		X		X	
10	X				X		X		X	
11	X				X		X		X	
12			X		X			X		X
13			X			X	X		-	-
14			X	X**	X			X	X	
15	X				X		X		-	-
16			X			X		X		X
17	X***					X*	-	-		X
18	-	-	-		X		X		X	
19	X			-	-	-	X		-	-
20			X			X		X		X
21			X			X		X		X
Totals	7	1	11	2	9	10	11	9	6	10

* None due to Britain joining the EEC, but being done constantly according to requirements.
** Include introducing new products.
*** Not as a result of Britain's membership to the EEC.

TABLE VIII-8

Case Studies Reference Numbers	Factor Analysis					
	Effect of elimination of tariff on trade			Effect of the floating rate of the £ on trade		
	Significant	Marginal	None	Significant	Marginal	None
1			X		X	
2			X		X	
3			X		X	
4	Could not be assessed				X	
5		X		X		
6		X		X		
7			X			X
8		X		X		
9	X					X
10		X		X		
11	X				X	
12			X	X		
13	X*					X
14	X				X	
15	X**				X	
16			X			-
17			X			X
18	X*				X	
19	X*				X	
20		X				X
21			X			X
Totals	7	5	8	5	9	6

* There are other factors contributing to the increase.

** No results reached yet. This is only an expectation.

TABLE VIII-9

Case Studies Reference Number	Factor Analysis					
	Increased trade because of entry			Britain's membership as advantageous to the Company's operations		
	Favourable	Unfavourable	No change	Yes	No change	It remains to be seen
1			X			X
2			X*		X	
3			X		X	
4			X	X		
5	X			X		
6			X	X		
7			X	X		
8	X			X		
9			X		X	
10	X			X		
11	X			X		
12			X		X	
13	X			X		
14			X			X
15			X	X		
16			X		X	
17			X		X	
18	X			X		
19	X			X		
20			X		X	
21			X			X
Totals	7	-	14	11	7	3

* Though no change was reported at the time of data collection the Company was expecting a slow process increase in trade.

TABLE VIII-10

Case Studies Ref. Nos.	Factor Analysis			
	Other obstacles to entry		Past trade experience in the rest of EEC before entry	
	Experienced	Not experienced	Any	None
1		X	X	
2	X		X	
3	X		X	
4		X	X	
5	X		X	
6	-	-	X	
7	X		X	
8	X		X	
9	X		X	
10	X		X	
11		X	X	
12	X			X
13		X	X	
14	X		X	
15	X			X
16		X	X	
17	X		X	
18	X		X	
19	X		X	
20		X		X
21	X			X
Totals	14	6	17	4

TABLE VIII-11

Case Studies Ref. Nos.	Factor Analysis						
	Competition in the rest of the EEC		Competition at home from firms in the rest of EEC countries			Special features that help the competitive position	
	Severe	Compatible	Shifts to their favour	Marginal penetration	No change	Any	None
1		X			X	X	
2		X			X	X	
3		X			X	X	
4		X		X		X	
5		X	X			X	
6		X			X	X	
7		X			X	X	
8		X		X			X
9	X			X			X
10	X			X		X	
11		X		X		-	-
12	X		X			X	
13	X				X	X	
14		X		X		X	
15	X		-	-	-	X	
16		X	-	-	-	X	
17	X			X		X	
18		X		X		X	
19	X				X	X	
20	X				X	X	
21	X				X	X	
Totals	9	12	2	8	9	18	2

TABLE VIII-12

Case Studies Ref. Nos.	Factor Analysis					
	Form(s) of economies of scale obtained after entry			Forms of increased efficiency obtained after entry		
	Any	None	Expected	Any	None	Attempted
1			X			X
2	-	-	-	-	-	-
3		X			X	
4	X*					X*
5	X			X		
6	X*			X*		
7	X*			X*		
8	X*				X	
9	X					X
10	X					X
11	X			X		
12	X*			X*		
13	X*					X*
14	X			-	-	-
15	X*			X*		
16	-	-	-	-	-	-
17	X*			-	-	-
18	X*					X
19	X*				X	
20		X			X	
21	-	-	-	-	-	-
Totals	15	2	1	6	4	6

* Not because of Britain's entry into the Community but for other reasons.

The following are the conclusions drawn from the analysis in Chapter V and VI and from Tables VIII - 7 to VIII - 12 relating to the Case Studies;

Some firms found it necessary to implement new measures and to adopt new policies in order to penetrate the market.

As table VIII - 7 indicates structural reorganisation was carried out by 7 firms; another firm expected to implement it in the future.

It is understandable that these firms were obliged to take such a measure, so each can adjust to make it capable of facing existing or potential competition. Measures relating to such structural reorganisation ranged from merely creating a new post of Assistant to General Sales Manager responsible for the EEC operations (as in Case Study No. 15) to a comprehensive splitting of the operations to form a new Company dealing only with Europe (as in Case Study No. 10). Other measures implemented were shifting of managers and staff from posts from one company to another within a group, transformation of a subsidiary to a distributor, employing nationals from EEC countries in marketing and sales departments, the creation of an automonous but combined manufacturing unit for the group, with a separate marketing organisation in each of the EEC countries, the setting up of production facilities in a major EEC country to be responsible for products dispatched to EEC countries with the European operation treated as a profit centre, and others. (*)

There is no need to emphasise how important the impact of organisational structure on the nature of the decision making process, as it would affect the whole of the Company's operations from the pre-production requirements to the after sale follow up. (**) It is felt by those firms that undertook any

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(*) See Chapter V.

(**) See A.D. Chandler, Strategy and Structure, MIT Press, 1966 and J.G.March and H.A. Simon, Organisations, Wiley, 1958.

organisational changes that the wrong structure may impair their trade performance and would seriously affect their competitive position.

The majority of firms (11 case studies) felt no need for such changes. These were either firms that had past trade experience in this market and possessed the necessary organisational structure to deal with it, or they were firms which were not in a position to compete in such market, because of a strain on capacity, shortage of finance, size deficiency and/or obstacles to entry.(*)

Regarding products changes to meet the requirements of the market, as Table VIII - 7 shows, 2 firms carried out a major products change while the products of 9 firms needed only improvements or minor changes, and 10 firms were able to sell the same products. One of the firms that implemented a major change to the product did, in fact, introduce an entirely new product, and three others which applied no specific changes have constantly carried out changes according to consumer requirements.

Apart from the obvious objective of applying such changes, that is the need to face the competition conditions in the market, of which the right product is a major element(**), it was felt necessary to implement product modifications and improvements in order to overcome the technical barriers, existing in some EEC countries, with regard to standards, specifications, environmental requirement,

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(*) This will be explained in the forthcoming pages.

(**) Product deferenciation is often treated as barrier to entry, see George J. Stigler, The Organisation of Industry, R.D. Irwin, 1968.

such as noise level, government regulations "e.g. on the grounds of health and safety", and EEC directives for harmonization.(*)

But not all cases were instances of changes imposed solely by requirements in "the six" as the modifications to some of the products, were to enable firms to compete in the home market, e.g. modification to West Germany's standards was carried out not only as for the German market, but also to meet the increasing home demand for the modified products.

In another case it was claimed that modification to the product proved a blessing, as after the modifications had been carried out as a requirement to meet size standardisation, there was no more need to invest in several types of machinery to cover a wider size range.

Those firms which did not make any changes to their products (10 Case Studies) fell in one or more of the following categories.

a) Traded in the EEC market before entry. The process of modification to suit the product to the market had long been taken care of.

b) Firms that produced goods according to agreed contractual specifications, or in accordance with international standards.

c) Firms that produced consumer products where sales and marketing depend on the firm's efforts to attract consumption and increase demand rather than to modify its products according to market requirements.

(*) More about technical barriers will be dealt with later.

Finally, those firms that had no potential prospects for trade in the enlarged market. This was the case of the small firms in our main survey.

Turning to new marketing policies that have been introduced after the accession to the market, Table VIII - 7 shows that 11 firms carried out new policies in the enlarged market and 9 firms did absolutely nothing.

Examples of the policies (*) implemented are:-

- Marketing and sales functions reorganized by areas in relation to sales, and by commodities in relation to marketing.
- Constant comparison with the performances of European associate companies. This led to a creation of opportunities, innovation, the transfer of operations from one company to another; and cooperation in cost production programmes, the structures of pricing policies, solutions to production problems.
- Unification of the brand names for the different companies in the group in different EEC countries, to reinforce the group's image and to unify marketing methods.
- Increasing the number of outlets and distribution network to get a full coverage of the market.

The marketing policies, just outlined, and many others, are fundamental to the selection of an entry strategy. These policies also differ if seen in terms of the characteristics of the buyer, in consumer or industrial

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(*) For a full account of these policies, see Chap. V, pp. 156-166

usage and in the buying situation(*). This was illustrated in the analysis of replies in Chapter V, through the different behaviour towards such policies, between consumer and industrial producers firms.

Finally, table VIII - 7 indciates how the case study firms acted regarding pricing policy in the market; only 6 firms in all adopted new policies.

This low percentage, 28.6 of the total case studies, in changes of pricing policies, is consistent with conventional price theory which claims that an individual firm is assumed to be confronted by demand and cost conditions which are outside their firm's control; these conditions, plus the firm's objectives, determine the price charged by that firm(**). However, if we leave aside the different theoretical approach to pricing behaviour(***) we find that firms construct their pricing policies in a penetrated market, basically to keep up with the competition conditions facing them. The latter is usually determined by factors relating to the economic performance of the country concerned, bearing in mind the factor cost, according to which the firm operate. That explains why firms in our study had only limited options to manoeuvre within, as far as pricing was concerned.

(*) See R.S. Alexander, J.S. Cross and R.M. Cunningham, "Industrial Marketing" Irwin, (Homewood Illinois, revised edition 1961). p.3.

(**) It also determines the firm's level of output.

(***) See: G.C. Archibald "Large and small number in the theory of firm", George J. Stigler, "A Theory of Oligopoly", Franco Modiglidni "New Development on the Oligopoly front", in Douglas Needham ed. Reading in the economics of Industrial Organization, Holt International Edition, 1971.

The above mentioned implemented policies were adopted by firms either as a preparation for entry to the market, or as fundamental factors in competing in the market. We confined ourselves to those policies that are the cornerstone of a firm's performance and we left other policies(*) mentioned by the case study firms (those could be referred to in Chapter V). These other policies that have no major direct effect on trade, but if implemented they would certainly enhance a firm's performance. Namely, firms claim that part or all those policies would be introduced irrespective of Britain's entry into the EEC, i.e. they would have implemented it, had Britain not joined the Community. Accession to the enlarged market had the effect of speeding the implementation process.

We have seen so far what policies firms implemented as a preparation to Britain's membership to the Community, and with what policies they acted to take advantage of the accession to the larger market. The next step is to arrive at some conclusions as to the effect of the elimination of tariffs on the firms' trade.

Table VIII-8 divides the effect into three categories; significant, marginal and no effect. Seven firms fell in the first category, 5 in the second and for the remaining 8 firms the effect on their trade was nil.

Amongst firms that reported a favourable effect, 3 firms stated that the increase in their trade was not only attributed to a reduction in duties,

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(*) e.g. Training, market research, inventories and production policies.

but there were other factors which contributed. Amongst those factors were; investment programmes carried out in some EEC countries, help received from affiliates, technological superiority, efforts put into marketing and sales functions, structural changes that were carried out and the suitability of the products to meet demand.

If those are some factors which affected trade irrespective of tariffs elimination, in the following pages we shall concentrate on the effect of the latter as it is one of the important centre point of the Treaty of Rome, and indeed a backbone of any economic community. The main conclusions reached with regard to them, follow.

It is known that tariffs were gradually reduced from the time of Britain's entry (Jan., 1973) until they reached the zero rate on July 1, 1977. As from that date the UK had completed the transitional period for complete entry into the community's custom union, together with the other new members, Ireland and Denmark. This meant that, (save for a few non-industrial products, where intra-community charges ended later, at the end of the year 1977),(*) goods traded between the U.K. and other community members became free of custom duties and other export and import charges.(**)

The literature surveyed in Chapter III indicated the entire concept of custom unions and its main tool, i.e. elimination of tariffs. As was

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(*) See, European Communities Commission, Background Report, London, June 29, 1977.

(**) In addition, the nine member states presented a common tariff to the rest of the industrial world, i.e. the common external tariffs.

explained then, the effect of a custom union(*) on member countries is usually felt in two dimensions, in static and dynamic effects. The first would take the form of changes in output and income resulting from re-allocation of a fixed amount of productive resources, trade creation + trade diversion, consumption effects, and finally the magnitude of these effects on the terms of trade with non-members countries. The dynamic effect would be felt in changes in growth rate due to expansions in the size of the market, scale economies, intensified competition among firms, and investment creation.

If that is a package of the theoretical effects of elimination of tariffs, what then took place in the real terms during the three years (1973-1975) spent by our case studies firms, under custom union conditions? This we could find out from analysis in Chapter V and VI, but first we will give an account of the above factors on the firms' trade.

The range of effects, from a significant magnitude to nil, have been expressed by the studied firms, as table VIII - 8 shows. These could be interpreted as follows.

For those firms whose trade was helped significantly, more than one firm could not contribute the improvement to reductions in tariffs; they included one or more of the other factors mentioned. To others it was

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(*) Also see, B. Balassa, "Tariff Reductions and trade in Manufactures among Industrial Countries", American Economic Review, June 1966, and Melvyn B. Krauss, ed., The Economics of Integration, George Allen & Unwin, 1973.

merely a question of a reduction in the high duty rate, that formerly had been imposed and of being able to pass the price reduction. On the other hand there was never the question of trade creation resulting from a replacement of more efficient British production for relatively inefficient production within the other EEC countries. This later case, which none of the firms in our study was able to claim, is explained by George and Ward.(*) They produced a consistent finding of international studies of productivity growth, "that the U.K. has performed much less well than virtually all of her main competitors (including those of the EEC) during the post war period. Moreover, this has been associated with both a slower rate of growth of manufacturing output and a lower ratio of gross investment to output in the secondary sector". This is demonstrated in table VIII - 13 which shows the experience of the U.K., and nine other advanced countries, in terms of these two variables.

Two observations have to be mentioned regarding this table. The first is that the gross investment output ratios has been accounted for and considered by us because of the indirect effect they have on efficiency. Secondly, the comparison deals only with the years 1960-1970 which did not coincide with the period related to our study (1973-1975). We will elaborate on the latter point in the coming pages, when we touch on the relative effect of the performance of British economy. However,we can state briefly here, for the sake of a comprehensive argument related to the point under consideration that evidence which we will produce does

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(*) See, Kenneth D. George and T.S. Ward "The Structure of Industry in the EEC: An International Comparison", Cambridge University Press, 1975, pp.65

not alter the conclusions of Table VII-13 when applied to the years 1973-1975.

Table VIII-13

International Comparison of Growth and Investment in Manufacturing 1960 to 1970

Country	Growth of output % p.a.	Growth investment output ratios
Japan	12.5	30.5
Italy	9.8	n.a.
Netherlands	6.4	18.8
France	6.3	17.4
W. Germany	5.8	15.9
Belgium	5.4	18.7
Canada	4.8	14.5
Denmark	4.7	10.4
U.S.	4.0	11.7
U.K.	3.1	13.0

Source: OECD National Accounts of OECD Countries.

As far as these firms, whose trade was marginally influenced by tariff reductions are concerned, the reason given as an explanation is that the relative magnitude of tariff elimination on export have not changed significantly when compared with the no entry situation, because:

a) The level of tariff protection was not high.

b) As tariffs were being eliminated over several years, the changes from one year to another were not significant. Hence there was only a gradual process of mutual adaptation to a new situation for Britain and the other members.

c)(*) The high cost of production resulting from the inflationary wages in the years 1973-1975 combined with the increase of the import bill (for those firms dependent on imported raw material or components) resulting from the declining value of the £, lowered the net reduction that would have been passed to export prices in terms of the rate of tariffs that had been saved.(**) But the other face effect of the devaluation of the pound, namely as a favourable factor, overshadowed the above effect by making exports cheaper and hence helping to increase trade. This was experienced by 14 firms in the case studies - either significantly (5 firms) or marginally (9 firms).

The nil effect expressed by the remaining firms related to: (1) products traded between affiliates operating within the EEC countries irrespective of high, low or zero tariffs that were imposed.(***) (2) Products that are produced to agreed primary specifications or cost,(****) (3) Products that carry a very small tariff rate, so that the impact of its

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(*) The full impact of the performance of the British economy on the performance of British firms in the EEC will be discussed later.

(**) Savings obtained as a result of tariff reductions could, if the internal cost elements of the firm permit, be passed to the EEC consumer or buyer in terms of lower prices. But as the above savings coincided with a declining rate of the sterling which resulted, on its turn in an increase of the production cost, especially if the imports bill of the firm constitute a substantial part of the total cost.

(***) This is related to the oil industry, see Case Study No. 7.

(****) See Case Study Nos. 1 and 16.

reduction is hard to notice,(*) (4) The products of those firms that have not traded with the EEC countries before entry, as they would start trading in an elimination of tariff situation.(**) (5) Finally, it is related to those products that are used as components among many to a final product, which constitute a small fraction of the total cost of the finished product.(***)

However, elimination of tariffs does not mean that all hindrances to intra-community trade are overcome. Customs duties are only one of the barriers to the movement of trade, as the European Communities Commission points out in its communication(****) to the Council of Ministers and the European Parliament on the occasion of the final tariff cuts and the end of the transitional period (1 July 1977). This proved to be true in relation to what was experienced by the firms in the study in hand. As Table VIII-10 shows, 14 firms out of the 21 case studies faced different types of those obstacles to trade, which diminished the effect of tariffs elimination. From Chapters V and VI we can detect the different forms of the impediments experienced by the studied firms.

These are:

a) Standardisation required by more than one institute; home market legislators, EEC directives concerned, and individual EEC countries standardisation regulation.(*****)

(*) See Case Study No. 17.

(**) See Case Study No. 12.

(***) Car Components products.

(****) Communication on the State of the Custom Union of the EEC, Com (77) Final, 13 June 1977.

(*****) An engineering firm experienced the need to manufacture parts of its final product in Germany in order to be able to obtain the necessary German Certificate of Standards. This proved to be costly and an unjustifiable shift of resources.

b) Nationalistic attitudes and different state legislations.

c) Changes needed to be done that were beyond the existing ability of the firm(s). Examples: modifications to the products or changes in organisation.

d) Government purchases and aids.

e) Language barriers.(*)

f) Metric applications.

g) National requirements on the ground of health, safety and consumer protection.(**)

h) Different taxation system and rates in each member country.

i) Price differentiation for small firms.

A comprehensive account of the non-tariff barriers which would hinder the free movements of goods in a custom union can be found in the work of Dennis Swann.(***) Many of these have been mentioned by the studied firms. These are indirect taxes, state aids, state monopolies and public purchasing, technical and administrative obstacles, and cartel and concentration.

However, the Commission(****) of the European communities has recently revealed its 5-year plan to turn the Common Market into one single monetary

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(*) This confronted small size firms in particular. The situation is very clear with France, who insists on dealing with documentation in this language.

(**) The most demanding is Germany and the least is Holland.

(***) Dennis Swann, 'The Economics of the Common Market', Penguin, 1970.

(****) European Communities Commission, Background Report, London, April 5, 1978.

and economic union, aiming at Freer Circulation of goods and services amongst other programmes.

The main problems in the Commission's report that coincides with some of those expressed by the studied firms clarify the obstacles(*) to trade that still exist. The report states that although the Community has in theory no internal barriers and only one external tariff-wall, there are still:-

i) Nine separate customs authorities, each following different customs procedures, under different legal systems. There are still no arrangements for cooperation between the national customs authorities or between them and the EEC Commission. Furthermore, Customs authorities still follow different interpretations when deciding the precise origins of items such as steel and textiles, which leads to uncertainties and delays.

The commission points out further on customs authorities that there is no uniform system for the release of goods from Customs Warehouses, and that goods sent from one member state to another are held up, even though no tax other than VAT is payable on them.

ii) Variations in health requirements and packaging add to the difficulties of trading in food-stuffs.

(iii) Differences in regulations in each member state for packaging and labelling dangerous chemicals, call for unification. Otherwise they may need to be repacked and labelled each time they cross an EEC internal frontier.

(*) It has to be mentioned here that stability in trade flow depends on many factors other than freeing trade from obstacles or ensuring perfect competition (economic conditions at home. "inflation, growth, employment", currency stability in the EEC countries, and the World economy "Growth, trade, energy prices").

iv) Distortion of trade by anomalies in the various systems of taxation(*) (e.g. duties levied on beer and spirits and on manufactured tobacco products).

v) Joint stock companies, the chief providers of community wealth, are at present incorporated under the law of the individual Member States. These national laws differ considerably on matter such as company structure, accounting procedures and mergers.

vi) Different value added tax systems and rates in different EEC countries. The entire situation of the hinderance to movements to trade within the boundaries of the EEC countries was summed up by a case study firm.(**) This stated that 'the EEC is a collection of national markets on the move to become a common market. Barriers to entry exist in the national laws that affect the Company's decisions relating to the penetration of any of the mamber states markets'.

What made it more difficult for firms to have an easy access to the market(s) are the disadvantages that Britain's entry brought with it. These disadvantages expressed by the case study firms and worked as obstacles to entry can be concluded in the following:-

1) Applying salary levels of the U.K. to employ high cost EEC nationals creates a difficulty in getting the right people in British offices in EEC countries.

(*) The recent famous case in that regard is the action taken by the Commission against Distillers Co. Ltd. (U.K.) for charging one price on whisky for sale in the U.K. and a higher price to buyers wishing to market whisky in other countries of the EEC, so carving up the market. A related case is the discriminatory taxation imposed by Britain, France Italy and Denmark. On their spirits, wine and beer, that obliged the Commission to refer the four members to the European Court of Justice as they took measures which conflict with article 95, which prohibits member states from imposing directly or indirectly internal taxation on the products of other member countries in excess of that imposed on similar domestic products. (Source: ECC Ref. ISEC/B52/78 London, July 13, 78).

(**) Case Study Ref. No. 2.

2) Deposit schemes imposed in some EEC countries from time to time worked as a temporary restriction.

3) Constraints attached to the availability of funds immediately needed to meet policies and plans for penetration.

4) Excessive bureaucracy on the part of the Brussels Commission, in terms of the harmonisation of consumer legislation being introduced, and other disadvantages(*) which could be rated as an extra burden and not as obstacles as such.

The negative aspects of tariff elimination combined with other barriers to entry and the disadvantages of membership, explain the diversion of the expected sales increase in the primary survey with what actually took place. This has been assessed in the main survey and was summarised in Chapter VI, Tables VI-4 and VI-5.

However, not all the firms in the study had difficulties in penetrating the market. As we stated above there were those which met favourable effects. Tables VIII-2 and VIII-3 indicate the number of firms that increased their trade as a result of tariff elimination (12 firms divided between significant and marginal effects), the devalued rate of the pound sterling (14 firms divided between significant and marginal effect) and the advantages that Britain's membership brought with it, (11 firms).

(*) See Chapter V, pp. 148-149.

As the first and the second effects have been debated above, it remains to conclude what advantages the firms experienced from membership and how these increased trade.

Those advantages were:-

1) The European attitudes that companies adopted which resulted in a reshaping of the European operations for the better.

2) European standards were not always an obstacle, since they resulted in improvements(*) of production methods.

3) The help to trade due to the trade agreements between the EEC and its associates.(**)

4) Better relationship and acceptance of British firms by European companies.

5) Collaboration programmes with EEC partners in certain areas - for example R + D, innovations which are costly if done solely by one firm.

6) Ability to transfer products more easily between affiliates.

7) In the clothing industry as Britain increasingly adopt the European fashion and taste, relationship with the EEC companies meant the ability to get ready for likely eventual changes in the U.K. market; it also meant the creation of a situation that obliges UK management to become professional than they have been in the past.

Trade increases that have been achieved by some of the studied firms might be based upon <u>past trade experience</u> which firms had in one or more

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(*) A packaging products firm stated that standardisation increased its products, (i.e. trade) to meet the emphasis that had been put on identifications which meant increase in wording and so in packaging. Also raising standards in medical products eliminated some competitors that could not meet those standards and hence increased the firm's share of the market that have been shifted to them.

(**) Although it was difficult for the firms to specify its effect.

of the members markets. Table VIII - 4 demonstrates that an exceptional proportion of firms, 17 firms, had this experience. Past trade patterns are good indications of future trends, assuming that other factors affecting trade are static.(*) This, however, is not a valid proposition as the dynamic effects of the economic performance, the changes in growth rate, changes in the competition conditions, changes in the internal economies of the firm, will always affect future trade trends. Still, we are obliged - in any trade analysis - to go by the past data that is available.(**) Yet again, it is past trade experience, that works as an influencing factor on future trade inclination as it includes familiarity with the market competition conditions, policies already implemented in line with market requirements and previously established business relationships.

These inducement elements in the past trade experience factor would be an explanation of the response of 14 firms to the no change in their trade volume after Britain's entry, as table VIII - 9 indicates. Although 7 firms in that table indicated that the U.K. membership had a favourable effect on their trade they could not quantify or even qualify the possible effect had Britain not joined the Community. For the other 14 firms there would have been no difference, entry or no entry.

(*) See M.E. Kreinin "On the dynamic effects of a Custom Union", Journal of Political Economy, April 1974 and Y.S. Hu, "The Industrial Economics of Britain's entry into the EEC - A framework for analysing the dynamic effects", The Journal of Industrial Economics, June, 1974.

(**) See the relating arguments in Chapter VII pp.223-253 and Han and Liesner, op.cit. Ref. No.4. p.20.

As past trade experience was an effective factor in trading in the market, those special features which firms possessed, played a part in enhancing their competitive position. In table VIII - 11,18 firms out of the 21 case studies reported that they acquired one sort or another of internal or external advantage relating to their operations. These included:

1) The production of a wide range of products.

2) Advanced technology in a number of sectors of the firm's activities and constant innovations.

3) Ownership by a holding company that is rooted in the EEC market.

4) Licences and patents.

5) Cooperations with EEC competitors (e.g. exchange of knowledges).

6) Monopolistic conditions through government purchases in the home market that gave the firm the necessary economies of scale.

7) Diversifications that ensure control the supply of components.

8) Internationally known brand name.

If those special features that some companies possessed, heightened their competitive position in the enlarged market, it was still not an easy penetration all the way. As table VIII - 11 shows, 9 firms were faced with severe competition in the rest of the market, though the competition conditions of the remaining 12 firms were compatible with those of their competitors. Again table VIII - 5 points out the state of competition in the reverse direction, that is in the UK market from firms in the rest of the EEC countries. Shifts in the share of the UK market in favour of the competitors were reported only by 2 firms. Marginal penetrations

were experienced by 8 firms and for the remaining 9 firms, other EEC competitors did not succeed in gaining a slice of it. Explanations of the situations faced by those various groups of firms are amongst the following:-

1) Price disparities which are often due to national pricing, or other regulations, and currency fluctuations.(*)

2) Quality superiority and product suitability.

3) Competition conditions in members countries were almost the same unless distorted by national legislation,(**) that set a wall against entry.

4) Easy entry to the UK market was reported because not much capital was needed to start assembling a plant in a related industry.(*****)

5) The learning process that had been gained from European contacts was a factor of defence against penetration of the home market.

6) From the point of view of comparative advantages in industrial structure, the major industries(***) in the EEC are similar as there are no advantages on either side, in terms of comparative cost or technology.

7) Regarding the engineering manufacturers, competition is fierce either in the UK or the rest of the EEC markets - only firms with a hugh turnover could survive.

8) Political or national interests(****) do influence competition condition.

(*) The sixth report on competition policy represented on April, 1977 by Raymond Vouel, the Commissioner concerned, aimed at a policy of price transparency in markets, source ECC REF. ISEC/B28/1977 London, May 11, 1977.

(**) Though Italian legislation were a blessing to a firm (Case study Ref. No.9) in that it prevented Japanese firms, their formidable competitors, from trading in the Italian market.

(***) See Case study Ref. No. 2.

(****) For a full account of those interests see Chapter V, Case study ref. No. 1 and the state of the European aircraft industry; European Community No. 2 and No. 8, 1975.

(*****) See Case Study No. 12.

9) Penetration into the UK market was only impossible in the short run because of insistance on buying some British products,(*) as it possessed particular standards to suit other British products.

10) The expansion of the semi conductor(**) home market, despite the depression in the economy, increased both shares of the British and other EEC firms.

11) Industrial cost structure differentiation between the rest of EEC and Britain in the years 1974-1976 worked as an advantage to those whose cost factors - this depends on differences in inflation rates that affect input costs - were relatively stable.

12) The ability to satisfy urgent deliveries and rectify technical problems.

13) Low labour cost in the U.K. was an encouraging factor for penetration into the U.K. market.(***)

One of the reasons given as an advantage over competitors was the existnce of economies of scale and the increased efficiency that some case study firms enjoy. Reading table VIII - 6, we can deduct that the majority of firms did enjoy a form or another of those economies (15 firms), but a smaller number of firms (6 firms) managed to achieve increased efficiency. 10 firms from the former and 4 from the latter stated that their economies, and increased efficiency, were not a result of Britain's membership.

(*) This was to do with car components, see Case Study, Ref. No.13. This firm not only stopped competitors sharing its home market, but was able to penetrate the German market.

(**) See Case Study Ref. No. 11

(***) See Chapter V, for a full report of the competition condition in the U.K. and the rest of the EEC countries.

In that respect we could refer again to the dynamic effects of the Customs Union which consists of two entirely different arguments. The first is concerned with the effects of protection on the efficiency with which the firm operates, according to a given technology and market structure; what Leibenstein(*) has labelled 'x-efficiency'. The second is that larger markets would permit the exploitation of economies of scale and the adaptation of more up-to-date technology. Theoretical objections(**) were raised to both arguments; however, they are still a valid hypothesis.(***) This was emphasised by the studied firms as a force leading to a stronger competitive position to those which possessed economies of scale before the entry, and as a result of trading in the enlarged market for those who obtained them because of entry.

(*) H. Leibenstein, Allocative efficiency versus x-efficiency, American Economic Review, June 1966, pp. 392-415.

(**) For elaboration see "The economics of integration", Edited by M.B. Krauss, Allen and Unwin, 1973, pp. 12-17.

(***) These could be traced back to Adam Smith's description of the importance of the division of labour for efficiency. For a detailed discussion on the subject, see E.A.G. Robinson, "The Structure of Competitive Industry", CUP 1958; C. Pratten and R.M. Dean "The economies of large-scale production in British Industry, CUP, 1965; R.W. Shaw and C.J. Sutton, "Industry and Competition: Industrial Case Studies, Macmillan, 1976; and C.F. Pratten, "Economies of Scale in manufacturing Industry", CUP 1971.

8.4 Summing up

A. Trade results

As for the trade figures(*) obtained from the studied firms which were analysed in Chapter VI, we conclude that some firms have done extremely well, some have not, and other firms were not affected at all.(**)

This result is consistent with, firstly, the expectation reported by firms in the primary survey; secondly, the reasons and justifications of the firms' trade performance given in the main survey, advantages and/or disadvantages that firms experienced due to the entry, obstacles to trade and its hindrance effects; finally, this result agrees with the trade performance analysed in Chapter VII. To elaborate on this last point, we refer to the rank order of the selected manufacturing commodities under different groups, sections, of industries, which we constructed in Chapter VII. There we found that some goods ranked in the top classes, i.e. they enjoyed a considerable trade surplus, some were in the middle, i.e. the balance of trade was just in their favour, and the rest ranked in the lowest classes, e.g they experienced trade deficit. As the products(***) of the studied firms come under one or another of those ranked commodities in the different groups of industries, so this

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(*) As it was reported in Chapter VI, only 10 out of the 21 case studies firms permitted the release of such figures. These were expressed in different ways, by value, quantity or percentage. This we could not do anything about, as it was decided by the firms' executives to meet the balance between disclosure of data and the secrecy attached to it.

(**) See Table VI-1.

(***) It would have been clearer if we associated those products to the relevant classes in the rank order. But we failed to get from the studied firms the relative SITC to their products as they report their exports accordingly to HM Customs and Excise.

is a support to the above result. On the other hand, this result follows the hypothesis we underlined when we constructed the commodities rank order, which is that those that have done well have a comparative cost advantage over their competitors. Hence reverse reasoning applies to those firms which not only have not done well, but have also experienced penetration of their home market by firms from other EEC countries. It is again obvious that those that have not achieved any trade increase were in harmony with the decline(*) of the overall UK trade in the enlarged market.

However, we have to mention in that context that we were always aware, as regards the trade analysis we undertook, that it was deployed only as a supportive study to the case studies analysis and that for a comprehensive UK/EEC trade analysis we would have, at least in theory, to analyse in detail the trade in the products of each firm, related to a comprehensive analysis of the trade of the industry it belongs to and, finally, relate both to the overall UK trade. An attempt at this we have done, modestly and incomprehensively, in Chapters VI and VII.

B. Reasons as to why expectations not materialised

As regards the firms' expectations of increased trade due to Britain's membership, the comparison between what was forecast in the pilot survey and what actually took place, as reported in the main survey,

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(*) See the chart and the analysis in the above pages in this chapter and the interpretation of the trade analysis in Chapters VI and VII.

was revealed in Tables VI-4 to VI-7 in Chapter VI. Interpretations as to why expectations had not materialised were also given. The reasons for diversions amounted, in effect, either to reasons related to the internal operations of the companies, or to outside factors, such as competition conditions, performance of the British economy and home market conditions. The reasons were also related to different obstacles that existed. Those that had realised what they expected had reaped favourable effects of the elimination of tariffs, the advantages that membership brought with it, and the superiority of their internal operations. A full account of the interpretations was given in the Comparative approach analysis in the above chapter.

C. Position of firms in relation to their sizes and product markets

In the analysis in the grouped approach in Chapter VI, the main conclusions that we investigated are those related to the size of firm and its effect in taking opportunities offered in the accession to an enlarged market. Also the conclusions related to the product market divided between consumer and industrial products.

(i) Size effects

The positions of large and medium size firms were almost identical in that they were prepared to exploit the opportuties offered to them to expand their trade after the entry. Though the large-size firms were in a better position as they enjoyed technical efficiency and economies of scale that enabled them to compete against rivals' prices. They applied the latest technology, had constant use of R & D, have been able to attract the skills needed for their organisations and to raise the funds needed for expansion in the market. Usually they are part of

a group that has stretched its operations to different EEC countries. This has helped them in reallocation of factors of productions and final products. However, we have to note that large firms were already in the market before entry and that their decisions to expand in the same time depended on factors(*) and conditions other than those of entry alone. Examples of these factors are investment programmes, survival through growth and economic conditions at home and abroad. The EEC market, amongst others, was a familiar market in that regard, especially when concentration at home was exhausted, or when the domestic economic situation prevented growth at home.

As far as the medium-sized firms are concerned, as indicated in Chapter VI, they did not enjoy the interest of most writers and researchers. Those were constantly concerned with small firms or large international or multinational operations.(**) That is because, as we indicated, those other size groups were dominant in the business scene and because the characteristics of the medium size firms have a floating dimension between the other two size-groups. However, their operations in the extended market were distinctive. They neither share with the small firms the deficiencies that hinder their position in the market, nor enjoy the full forces that enhance the performance of the large-size group. Spare capacity was a feature that helped the increase of their trade, together

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(*) See J. M. Livingstone, "The International Enterprise," Associated Business Programmes, London, 1975, and E. J. Kolac, "International Business Enterprise," Prince Hall, 1968.

(**) See Chapter VI.

with potential expansion as a primary objective.

Finally as they are usually in the maturity stage of their life cycle with the ability to change and adopt new ideas, flexibility in adaptation to the requirements of the enlarged market is available.

The small-size firms performances were clear cut cases in our study; they failed to grasp the opportunity to expand their trade in the enlarged market. Apart from the internal deficiencies that characterize their operations in relation to a market as such, which we explored in Chapter VI. The reasons for the above conclusion were the lack of organisation that is needed to deal with a market as large as the EEC. They do not enjoy forms of economies of scale or efficiency, hence they cannot compete with other size groups prices. Language barriers, the burden of paper work, the cost of transportation and the lack of past experience in trading in that market have worked as obstacles. They have not been able to follow, let alone compete with, the market leaders, either in technology or innovations, planning production programmes are prohibited by the reality of their production processes which are usually conducted to customer order received at short notice. This does not give a favourable condition for penetrating the market, and creates difficulties in obtaining the necessary funds.

The above could be extra evidence to that produced for the Bolton Committee of the problems of small firms.(*)

(*) Problems of Small Firms, Evidence to the Committee of Inquiry set up in August, 1969, by the President of the Board of Trade (The Bolton Committee), CBI, Jan. 1971.

It was noted by the Commissioner responsible(*) in the EEC that small firms in the Community often come up against obstacles peculiar to their size; most of which are mentioned above; and would need aid to help them play their role more effectively.

ii. Product market influence

As regards the product market, the main conclusion reached is that membership offered more opportunity to the consumer producing firms, than to industrial producing firms at least in the short run. The reasons were, as far as the former is concerned, that enlargement of the market, in terms of population that could be attracted through advertisement, and price changes, and the relatively short period of time that is needed for production, which consequently makes adaptations to requirements of the market viable. Industrial products need a longer manufacturing cycle and their prices are inflexible in the short run. Moreover, the long-standing links with buyers creates a unified interest that goes beyond custom union or tariff elimination.

d) The Performance of the British economy and its effects

As business enterprises in the micro economic sense operate within an overall environment of aggregate economic conditions, so it was inevitable that the performance of the British economy in the period of our investigation (1973-1975) had affected policies, decisions, and performances of the British firms at home and abroad, this without taking into account the effect of the global economy on the growth rate of the industrialized countries, and hence its effect on world trade.

(*) See 'The EEC Commission Sixth Report on Competition policy', European Community, July/August, 1977.

It is appropriate to begin by concluding how the studied firms were affected in that respect, and then to proceed with the related evidence. The poor performance of the British economy(*) in this period had not helped the manufacturers that depended on the home market for the growth of their trade in order to have the resources needed to penetrate the enlarged market. Though opposite to the above common effect, recession and decrease in demand in the home market, which was a feature of the performance of the UK economy in 1973-1975, resulted in the release of existing capacity in some firms. This enabled resources to be switched to increase trade with EEC countries. It was also due to the effect of the price level in terms of the exchange rates that made exports more attractive.

Another main feature that affected the performance of firms, was the devaluation of the pound sterling due to the floating rate policy that had been in operation. The trade of most firms was helped by this factor as it made their exports cheaper, though this was not the case for those firms that imported most of their raw materials or components, since the import bill(**) had offset any gains from exports.

Amongst the most noticeable features of the performance of British economy in this period, were inflationary wage claims especially in the years 1973-1974, that hit British industry at a time it needed a healthy economic condition at home as a base for the penetration of the enlarged market. However, that was not the case for capital intensive undertakings, as the wages element does not constitute a major cost factor among the other factors of productions.

(*) Unemployment, rising prices and the fall of the value of the pound. For a full account see British Economy Survey, Vol. 5, Nos. 1, 2, 3, 1975, and Vol. 6, Nos. 1, 2, 3, 1976, OUP.

(**) Though the relaxation in commodity prices, worldwide (73-75) due to the recession in the world economy, has worked in favour of some companies' import bills.

It was not only Britain that performed poorly economically in that period(*) but there was an economic crisis in all the EEC member countries, and in the world as a whole which had been triggered by the increase of the oil prices in 1973. Emphasis is on higher growth rate, and export led growth is always a central policy target for any British government, and the relations between this and industrial welfare are obvious.(**)

As the economic difficulties were shared with all the EEC countries, with different weight, the EEC Commission(***) proposed, on June 24, 1976, tasks for action by government and both sides of industry, in order to tackle the economic difficulties. It constitutes targets as; restoration of full employment by 1980, attainment of a minimum growth rate of 4.5 to 5% from 1976 onwards, and reduction in inflation to an annual rate of 4 to 5% between 1976 and 1980. The policies proposed as instruments to attain those targets include investment policy, employment policy and anti-inflation policy.

These were hopes and intentions, it remains to be seen if they work, as the free world, the global market, was in a deep recession and economic difficulties. This was the reason the industrialised countries held one conference after another, the last of which we mentioned at the beginning of this chapter, to point the obstacles and formulate the remedies.

(*) See 'The United Kingdom Economy (NIESR) National Institute of Economic and Social Research' 2nd ed. 1976.

(**) See the related arguments in the literature survey in Chapter III.

(***) See European Communities Commission, Ref. ISEC/B27/76, London June 1976 on the E.C. tripartite conference.

It is international economic(*) theory and policy with its sub divisions and tools, of which international trade is a backbone, which has an impact on everyone's life, as it involves employment, GNP, and indeed the welfare of the nation(s). This decided the industrialised nations to hold a two-day economic summit on July 16 and 17, 1978, to agree on a comprehensive strategy covering growth, employment, inflation, international monetary policy, energy, trade, and other issues.(**)

(*) International trade, commercial policy, payments and foreign exchange, international monetary system and world economic growth. See Ingo Walter, International Economics, Theory and Policy, Ronald Press 1968, and C. P. Kindleberger, Foreign Trade and the National Economy, Yale University Press, 1967. The basic hypothesis lies in the interdependence of world economy where the state voluntarily relinquishes its power of independent action by its partners in a number of fields where the gains from international cooperation outweigh the loss of absolute autonomy.

As a government policy aimed at promoting growth by increasing the total expenditure of its citizens could well thwart the policy of another government attempting to stabilize prices by reducing expenditure. Therefore governments in the dilemma of achieving a low rate of inflation and a full employment situation nationally and maintaining an equilibria balance of payments, are obliged to coordinate their policies. The possibility of this coordination, which looks more and more inevitable, clearly affects the economic policy of a country, which in turn affects the components of that economy, and what is more important to it other than the industrial sector.

(**) Bonn Summit: text of declaration, The Times, London, Tuesday July 18, 1978.

It is the interrelation and the compound effects of Britain's economic performance; the economic performance of the block of nations she belongs to; the EEC; and the world economic conditions; that at the end of the day affect the performance of a British multinational firm operating in the EEC and/or anywhere in the world, and indeed affect the performance of a tiny company in, say, the Midlands or South Wales.

What we are trying to indicate is that benefits, in terms of increasing trade and exploiting the opportunity offered by a market five times the size of Britain, have been experienced by some studied firms.(*) However, as stated before, while Britain's membership coincided with slump in world trade, a huge increase in the price of oil, a high rate of inflation and increasing numbers of unemployed, it was difficult for firms to isolate those factors in order to measure the net effect of joining the Community and any impowered penetration of the market.

Finally, given the circumstances that had emerged to affect the level of prices, the aspiration that existed in the time of British entry had been frustrated partly by events, partly by poor performance, and possibly by actions designed to offset the adverse effects experienced through the balance of payment, following membership.

However, the realizationof such aspirations really will have to come to the basics, in that increased trade runs parallel with improved industrial performance, increased productivity and increased output.

(*) We ought to remember in that context, the other internal factors inside the firm, that promoted the trade of those firms irrespective of the national or world economic performance, examples of which were dealt with in the analysis in Chapter V, VI and in the beginning of this chapter.

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(19) The scope of 'Industrial Policy' is open to a variety of interpretations. It can be conceived more broadly to cover rights of establishment, freedom of capital movements and rules governing competition. See Industrial Policy in the Community, EEC, 1970.

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(21) The meeting of Heads of Governments of the member countries of the European Community, together with those of the three prospective members, was held in Paris in November 1972.

(21/A) The issue is succinctly posed in Goran Ohlin, Trade in a non-Laissez-faire World, in Paul A. Samuelson (ed.), International Economic Relations, London, Macmillan, for the International Economic Association, 1969).
On the subject of non-tariff interventions, there has developed a considerable literature. The major review of the non-tariff problem have been Robert Baldwin, Non-Tariff Distortions of International Trade, (Washington: Brookings Institution, 1970), and Gerard and Victoria Curzon, Hidden Barriers to International Trade, Thames Essay No. 1 (London: Trade Policy Research Centre, 1970).

(22) Technical standard and specifications are examined in Robert Middleton, Negotiating on Non-Tariff Distortions of Trade London, Macmillan, for the Trade Policy Research Centre, 1974.

(23) Government Purchasing in Europe, North America and Japan: Regulations and Procedures, Paris, OECD Secretariat, 1966.

(24) There has been concern expressed in the United States about agreeing on a common industrial policy; it might go to protectionists excesses against external interests - in order to satisfy the internal interests of all member countries - much as the Common Agricultural Policy has done. See G. Fred Bergsten, Crisis in US Trade Policy, Foreign Affairs, New York, July 1971.

(25) It is not altogether appreciated that much of the protectionists pressure that developed in the United States almost immediately after the successful conclusion in May 1967 of the Kennedy Round of GATT negotiations was provoked by the belief that foreign products, especially from Western Europe, were penetrating the American Market with the aid of subsidies for their export or for their manufacture. For an account of the situation at that time, see Constructive Proposals for US Import Quotas, a Statement by the Canadian-American Committee (Washington: National Planning Association 1968). One specific and major source of difficulty has related to exports to the US of heavy electrical engineering equipment, discussed in Horace de Podwin and Barbara Epstein, The British Power Transformer Industry and its excursions into the US Market: Case study in International Price Discrimination (New York Institute of Finance, 1969).

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APPENDIX

APPENDIX I : Tables used to compare " γ " in the "tetra chorichoric correlation" statistical method as regards Q6 and Q7 in primary survey.

I/A <u>The Entire Population</u> Q6

Q7	Yes	No	Total	Proportion
Yes	83 (a)	18 (b)	101	.687 (p)
No	12 (c)	34 (d)	46	.313 (q)
Total	95	52	147	1.000
Proportion	.646 (p')	.354 (q')	1.000	

$$\gamma \cos - pi = \cos\left(\frac{180^\circ}{1 + \sqrt{\frac{ad}{bc}}}\right)$$

$$= \cos\left(\frac{180^\circ}{1 + \sqrt{\frac{(83)(34)}{(18)(12)}}}\right)$$

$$= \cos\left(\frac{180^\circ}{1 + \sqrt{\frac{2822}{215}}}\right)$$

$$= \cos\left(\frac{180^\circ}{1 + \sqrt{13.126}}\right)$$

$$= \cos\left(\frac{180^\circ}{1 + 3.623}\right)$$

$$= \cos\left(\frac{180^\circ}{4.623}\right)$$

$$= \cos 38.93^\circ$$

$$\gamma = .78$$

I/B. Large-size firms Q.6

Q.7

	Yes	No	Total	Proportion
Yes	17 (a)	2 (b)	19	.731 (p)
No	1 (c)	6 (d)	7	.269 (q)
Total	18	8	26	1.000
Proportion	.692 (p')	.308 (q')	1.000	

$$\gamma_{\cos - pi} = \cos\left(\frac{180^{\circ}}{1 + \sqrt{\frac{(17)(6)}{(2)(1)}}}\right)$$

$$= \cos \frac{180^{\circ}}{1 + \sqrt{51.00}}$$

$$= .93$$

I/C Medium-size firms Q6

Q7	Yes	No	Total	Proportion
Yes	23 (a)	3 (b)	26	.765 (p)
No	1 (c)	7 (d)	8	.235 (q)
Total	24	10	34	1.000
Proportion	.706 (p')	.294 (q')	1.000	

$$\Upsilon \text{ cos - pi} = \cos\left(\frac{180^{o}}{1 + \sqrt{\frac{(23)(7)}{(3)(1)}}}\right)$$

$$= \cos\left(\frac{180^{o}}{1 + \sqrt{53.667}}\right)$$

$$= .93$$

I/D Small-size firms Q6

Q7	Yes	No	Total	Proportion
Yes	43 (a)	13 (b)	56	.644 (p)
No	10 (c)	21 (d)	31	.356 (q)
Total	53	34	87	1.000
Proportion	.609 (p')	.391 (q')	1.000	

$$\gamma_{\cos} = \cos\left(\frac{180^\circ}{1 + \sqrt{\frac{(43)(21)}{(13)(10)}}}\right)$$

$$= \cos\left(\frac{180^\circ}{1 + \sqrt{6.946}}\right)$$

$$= .65$$

APPENDIX II : Trade performance by sections and divisions according to SITC that showed increased trade in the period 1973-1975.

Section 5(*): Chemicals

Chemical elements and compounds (Division 51)

		1970	1971	1972	1973	1974	1975 (9 months)
				£000			
EEC		62,036	74,013	81,529	153,785	376,630	211,678
		%	%	%	%	%	%
		100	119.30	131.42	247.90	607.12	341.22
Total Trade D.51		210,340	231,611	254,278	364,482	733,556	463,830
		%	%	%	%	%	%
		100	110.11	120.89	173.28	348.75	220.51
% Grand Total		100	79.35	90.49	229.79	314.05	255.48

Source:
(*) Overseas Trade Statistics.

Dyeing, Tanning and Colouring Materials (Division 53)

		1970	1971	1972	1973	1974	1975 (9 months)
				£000			
EEC		15,624	17,073	24,114	38,627	54,622	34,933
		%	%	%	%	%	%
		100	109.27	154.34	247.23	349.60	223.59
Total Trade D.53		81,477	88,656	105,961	140,490	213,829	147,196
		%	%	%	%	%	%
		100	108.81	130.05	172.43	262.44	180.66
% Grand Total		100	79.35	90.49	229.79	314.05	255.48

Medicinal and Pharmaceutical Products (Division 54)

		1970	1971	1972	1973	1974	1975 (9 months)
				£000			
EEC	(	27,270	29,455	35,643	62,207	87,077	74,136
	(	%	%	%	%	%	%
	(	100	108.01	130.270	228.12	319.31	271.86
Total Trade D.54	(	139,751	168,442	180,759	221,202	301,571	227,633
	(	%	%	%	%	%	%
	(	100	120.53	129.34	158.28	216.07	162.88
% Grand Total		100	79,35	90.49	229.79	314.05	255.48

Essential oils and perfume materials, toilet, polishing and cleaning preparations (Division 55)

		1970	1971	1972 £000	1973	1974	1975 (9 months)
EEC	(	11,110	12,377	15,197	26,957	42,832	40,057
	(	%	%	%	%	%	%
	(	100	111.40	136.79	242.64	385.53	360.55
Total Trade D.55	(	67,021	72,234	77,438	96,850	145,639	125,163
	(	%	%	%	%	%	%
	(	100	107.78	115.54	144.51	217.30	186.75
% Grand Total		100	79.35	90.49	229.79	314.05	255.48

Fertilisers, Manufactured (Division 56)

		1970	1971	1972	1973	1974	1975 (9 months)
				£000			
EEC	(	371	288	1,151	10,517	27,239	22,544
	(	%	%	%	%	%	%
	(	100	77.63	310.24	2834.77	7342.05	6076.55
Total Trade D.56	(	4,785	3,628	6,987	14,752	45,661	46,798
	(	%	%	%	%	%	%
	(	100	76.25	146.01	308.30	954.25	978.01
% Grand Total		100	79.35	90.49	229.79	314.05	255.48

Plastic Materials, regenerated cellulose and artificial resins

(Division 58)

		1970	1971	1972	1973	1974	1975 (9 months)
				£000			
EEC		22,044	25,835	29,551	68,973	109,250	81,605
		%	%	%	%	%	%
		100	117.20	134.05	312.72	495.60	370.19
Total Trade D.58		143,747	159,978	176,381	225,227	366,808	250,877
		%	%	%	%	%	%
		100	111.29	122.70	156.68	255.18	174.53
% Grand Total		100	79.35	90.49	229.79	314.05	255.48

Section 6 : Manufactured goods classified chiefly by materials

Wood and cork manufactured (excluding furniture) (Division 63)

		1970	1971	1972	1973	1974	1975 (9 months)
				£000			
EEC		2,803	2,991	3,138	7,472	11,362	8,557
		%	%	%	%	%	%
		100	106.71	111.95	266.57	405.35	305.28
Total Trade D.63		11,197	11,770	11,412	15,508	25,273	20,983
		%	%	%	%	%	%
		100	105.12	101.92	138.50	225.71	187.40
% Grand Total		100	79.35	90.49	229.79	314.05	255.48

Paper, Paperboard and manufactures thereof (Division 64)

	1970	1971	1972 £000	1973	1974	1975 (9 months)
EEC	17,618	19,950	27,345	52,699	77,202	57,106
	%	%	%	%	%	%
	100	113.24	155.21	299.12	438.20	324.134
Total Trade D.64	89,228	97,529	101,743	128,749	199,292	150,859
	%	%	%	%	%	%
	100	109.30	114.02	144.29	223.35	169.07
% Grand Total	100	97.35	90.49	229.79	314.05	255.48

Textile yarn, fabrics, made-up articles and related products

(Division 65)

		1970	1971	1972	1973	1974	1975 (9 months)
				£000			
EEC		58,154	60,384	69,368	175,770	219,576	163,114
		%	%	%	%	%	%
		100	103.83	119.28	302.25	377.58	280.48
Total Trade D.65		396,832	425,825	445,416	589,569	745,783	500,962
		%	%	%	%	%	%
		100	107.31	112.24	148.57	187.94	126.24
% Grand Total		100	79.35	90.49	229.79	314.05	255.48

Section 7: Machinery and Transport Equipment

Machinery, other than electric (Division 71)

	1970	1971	1972 £000	1973	1974	1975 (9 months)
EEC	381,722	432,072	489,984	706,275	902,026	816,699
	%	%	%	%	%	%
	100	113.18	128.36	185.02	236.30	213.95
Total Trade D.71	1,642,376	1,944,930	2,054,116	1,412,980	3,081,328	3,092,443
	%	%	%	%	%	%
	100	118.42	125.07	146.92	187.61	188.29
% Grand Total	100	79.35	90.49	229.79	314.05	255.48

Electrical machinery, apparatus, and appliances (Division 72)

		1970	1971	1972	1973	1974	1975 (9 months)
				£000			
EEC		114,073	122,095	131,860	233,242	338,247	293,996
		%	%	%	%	%	%
		114,073 = 100	107.03	115.59	204.47	296.51	257.73
Total Trade D.72		579,052	647,657	661,749	807,287	1,131,682	1,114,533
		%	%	%	%	%	%
		100	111.85	114.28	139.42	195.43	192.48
% Grand Total		100	79.35	90.49	229.79	314.05	255.48

Transport Equipment (Division 73)

	1970	1971	1972 £000	1973	1974	1975 (9 months)
EEC	206,535	246,833	282,700	451,139	506,049	481,664
	%	%	%	%	%	%
	100	119.51	136.88	218.43	245.01	233.21
Total Trade D.73	1,079,789	1,272,585	1,299,582	1,554,817	1,839,244	1,794,528
	%	%	%	%	%	%
	100	117.85	120.36	143.99	170.33	166.19
% Grand Total	100	79.35	90.49	229,79	314.05	255.48

Section 8: Miscellaneous Manufactured articles

Furniture (Division 82)

		1970	1971	1972 £000	1973	1974	1975 (9 months)
EEC		6,517	7,826	10,085	17,650	25,992	25,014
		%	%	%	%	%	%
		100	120.09	154.75	270.83	398.83	383.83
Total trade D.82		25,328	30,197	35,026	44,181	69,512	69,696
		%	%	%	%	%	%
		100	119.22	138.29	174.44	274.45	275.17
% Grand Total		100	79.35	90.49	229.79	314.05	255.48

Clothing (Division 84)

	1970	1971	1972 £000	1973	1974	1975 (9 months)
EEC	21,707	21,658	26,665	66,533	87,523	71,541
	%	%	%	%	%	%
	100	99.77	122.84	306.50	403.20	329.58
Total Trade D.84	123,116	129,485	144,327	179,575	230,017	182,387
	%	%	%	%	%	%
	100	105.17	117.23	145.86	186.82	148.14
% Grand Total	100	79.35	90.49	229.79	314.05	255.48

Footwear (Division 85)

	1970	1971	1972 £000	1973	1974	1975 (9 months)
EEC	1,695	1,863	2,549	11,810	16,065	11,885
	%	%	%	%	%	%
	100	109.91	150.38	696.76	947.79	701.18
Total Trade D.85	35,511	36,334	32,265	35,555	47,315	37,152
	%	%	%	%	%	%
	100	102.32	90.85	100.12	133.24	104.62
% Grand Total	100	79.35	90.49	229,79	314.05	255.48

APPENDIX III : List of firms interviewed as Case Studies

(*)Serial Nos	Company and Location
1	Reed Group, "Paper Division", Reed Paper and Board (UK) Ltd., Aylesford, Kent.
2	Dexion-Comino International, Wembley, Middlesex. (H.O.)
3	Bristol Engine Division, Rolls-Royce (1971) Ltd., Filton, Bristol.
4	Mars Ltd., Slough, Berks.
5	Worthington-Simpson Ltd., Newark, Notts
6	SKF (UK) Ltd., Luton, Bedfordshire.
7	James Clarke & Eaton Ltd., Bracknell, Berks.
8	Ferodo Ltd, Stockport, Cheshire.
9	The Associated Octel Company Ltd., London. (H.O)
10	International Rectifiers, Oxted, Surrey.
11	D.R.G. Flexible Packaging, Bristol.
12	Compair Industrial Ltd., Slough, Berks.
13	Bendix Westinghouse Ltd., Bristol.
14	Ranco Controls, Plymouth, Devon.
15	CAM Gears Ltd. (Hitchin), Hitchin, Herts.
16	The Gala Cosmetic Group, Surbiton, Surrey.
17	Foden Ltd., Sandbach, Cheshire.
18	Welton Bags Co. Ltd., Midsomer Norton, Bath.
19	Redcliff Inks, Yate, Bristol.
20	Pasolds Ltd., Langley, Berks.
21	Tootal, "Fabric Division", Manchester.

(*) These serial numbers differ from the reference numbers given to the Case Studies for use in the tables in Chapters V, VI and VIII. The list of these reference numbers is in Appendix I in Vol. 2.

APPENDIX IV : List of products in each industry section and the relative SITC.

A. Chemicals

SITC	Description
512.1	Hydrocarbons and their halogenated, sulfonated, nitrated or nitrosated derivatives.
512.2	Alcohols, phenols, phenol-alcohols, glycerine.
512.3	Ethers, epoxides, acetals.
512.4	Aldehyde-, ketone- and quinone-function compounds.
512.5	Acids and their halogenated, sulphonated, nitrated or nitrosated derivatives ('Organic acids')
512.7	Nitrogen-function compounds.
512.8	Organo-inorganic and heterocyclic compounds.
513.2	Other chemical elements such as chlorine, other halogens, sulphur, etc.
513.3	Inorganic acids and oxygen compounds of non-metals or metalloids
513.5	Metallic oxides, of kinds principally used in paints
513.6	Other inorganic bases and metallic oxides
514.2	Other metallic salts and peroxysalts of inorganic acids (I)
514.3	Other metallic salts and peroxysalts of inorganic acids (II)
514.9	Other inorganic chemicals such as liquid air, hydrogen peroxides, phosphides, etc.
521	Mineral tar and crude chemicals from coal, petroleum and natural gas.
531.0	Synthetic organic dyestuffs, natural indigo and colour lakes
532	Dyeing and tanning extracts, and synthetic tanning materials
533.1	Other colouring materials
533.2	Printing inks
533.3	Prepared paints, enamels, lacquers, varnishes, etc.
541.1	Vitamins and provitamins
541.3	Penicillin, streptomycin, tyrocidine and other antibiotics.
541.7	Medicaments.

SITC	Description
551	Essential oils, perfume and flavour materials
553.0	Perfumery and cosmetics, dentifrices and other toilet preparations
554.1	Soaps
554.2	Surface-acting agents and washing preparations ('Detergents')
561.1	Nitrogenous fertilizers and nitrogenous fertilizer materials
561.2	Phosphatic fertilizers and phosphatic fertilizer materials
561.3	Potassic fertilizers and potassic fertilizer materials
571	Explosives and pyrotechnic products
581.1	Products of condensation, polycondensation and polyaddition ('Condensation products')
581.2	Products of polymerization and copolymerization ('Polymers')
581.3	Regenerated Cellulose, chemical derivatives of cellulose and vulcanised fibre
581.9	Other artificial resins and plastic materials
599.2	Insecticides, fungicides, etc.
599.5	Starches, inulin, gluten; albuminoidal substances; glues
599.7	Other organic chemical products such as waxes, graphite, etc.

B. Manufacture of Leather

SITC	Description
611.3	Calf Leather
611.4	Leather of other bovine cattle and equine leather ('Cow hide')
611.9	Leather of sheep, goats, etc. ('Other leather')
612	Manufactures of leather or of artificial or reconstituted leather
613.0	Fur skins, tanned or dressed including dyed
621.0	Materials of rubber
629.1	Rubber tyres and tubes for vehicles and aircraft
631.1	Veneer sheets
631.2	Plywood including veneered panels
632.4	Builders' woodwork and prefabricated buildings of wood
641.1	Newsprint paper
641.2	Other printing and writing paper in rolls or sheets
641.3	Kraft paper and kraft paperboard
641.5	Machine-made paper and paperboard, simply finished, in rolls or sheets
641.6	Fibreboards and other building boards of wood pulp or of vegetable fibres
641.9	Other paper and paperboard in rolls or sheets
642.1	Paper bags, paperboard boxes and other containers of paper or paperboard
642.9	Articles of paper pulp, paper or paperboard, n.e.s.
661.2	Cement
662	Clay construction materials and refractoryconstruction materials ('Bricks and tiles')
663	Other mineral manufactures
664.3	Drawn or blown glass, unworked, in rectangles
664.4	Cast, rolled, drawn or blown glass in rectangles, surface ground or polished but not further worked

SITC	Description
665.1	Carboys, bottles, jars, flasks and similar glass containers
665.2	Tableware and other household articles of glass
665.8	Other articles made of glass
666.4	Porcelain or china household ware
667.2	Diamonds (other than industrial diamonds) not set or strung
821.0	Furniture
831.0	Travel goods, handbags, and similar articles
841.3	Apparel and clothing accessories of leather
851.0	Footwear

C. Textile and Clothing

SITC	Description
651.2	Yarn of wool and animal hair
651.3	Cotton yarn and thread, grey, not mercerized or put up for retail sale
651.4	Cotton yarn and thread, bleached, dyed, mercerized, etc.
651.5	Yarn and thread of flax, ramie and true hemp
651.6	Yarn and thread of synthetic fibres
651.7	Yarn and thread of regenerated (artificial) fibres
652.1	Cotton fabrics, woven, grey, not mercerized
652.2	Cotton fabrics, woven, other than grey
653.1	Silk fabrics, woven
653.2	Woollen fabrics, woven (including fabrics of fine hair)
653.3	Linen, ramie and true hemp fabrics, woven
653.4	Jute fabrics woven
653.5	Fabrics, woven, of synthetic fibres
653.6	Fabrics, woven, of regenerated (artificial fibres)
653.7	Knitted or crocheted fabrics, not elastic nor rubberized
654.0	Tulle, lace, embroidery, ribbons, trimmings and other small wares
655.4	Coated or impregnated textile fabrics and products, n.e.s
655.6	Cordage, cables, ropes, twines and manufactures thereof
655.8	Wadding, wicks and textile fabrics for use in machinery or plant
656.1	Bags and sacks of textile materials
656.2	Tarpaulins, tents, awnings, sails, other made-up canvas goods
656.6	Blankets, travelling rugs and coverlets
656.9	Other made-up articles of textile materials
657.4	Linoleum and similar floor coverings

SITC	Description
657.5	Carpets, carpeting and rugs, knotted
657.6	Other carpets, carpeting and rugs
841.1	Clothing of textile fabric, not knitted or crocheted ('Clothing excluding knitwear')
841.2	Clothing accessories of textile fabric, not knitted or crocheted
841.4	Clothing and accessories, knitted or crocheted ('Knitwear')
841.5	Headgear

D. Iron and Steel

SITC	Description
671.2	Pig iron (including cast iron)
671.4	Ferro-manganese
671.5	Other ferro-alloys
672.3	Ingots of iron or steel
672.5	Blooms, billets, slabs, sheet bars and roughly forged pieces of iron and steel
672.7	Iron or steel coils for re-rolling
673.1	Wire rod of iron or steel
673.2	Bars and rods of iron or steel; hollow mining drill steel
673.4	Angles, shapes and sections, 80mm or more, and sheet piling of iron or steel
673.5	Angles, shapes and sections, less than 80mm, of iron or steel
674.1	Universals and heavy plates and sheets, more than 4.75mm in thickness
674.2	Medium plates and sheets, 3mm to 4.75mm in thickness
674.3	Plates and sheets, less than 3mm in thickness, uncoated ('Thin uncoated plates')
674.7	Tinned plates and sheets
674.8	Plates and sheets, less than 3mm in thickness, coated (excluding tinned plates or sheets)('Thin coated plates')
675.0	Hoop and strip of iron or steel
676	Rails and railway track construction material of iron or steel
677.0	Iron and steel wire (excluding wire rod)
678.1	Tubes and pipes of cast iron
678.2	Tubes and pipes of iron or steel, seamless
678.3	Tubes and pipes of iron or steel, welded, clinched, etc.
678.4	High pressure hydro-electric conduits of steel
678.5	Tube and pipe fittings of iron or steel
679	Iron and steel castings and forging, unworked, n.e.s.

E. Non-Ferrous Metal

SITC	Description
681.1	Silver, unworked or partly worked
681.2	Platinum and other metals of the platinum group unworked or partly worked
682.1	Copper and alloys, whether or not refined, unwrought
682.2	Copper and alloys of copper, worked
683.1	Nickel and nickel alloys, unwrought
683.2	Nickel and nickel alloys, worked
684.1	Aluminium and aluminium alloys, unwrought
684.2	Aluminium and aluminium alloys, worked
685.1	Lead and lead alloys, unwrought
685.2	Lead and lead alloys, worked
686.1	Zinc and zinc alloys, unwrought
686.2	Zinc and zinc alloys, worked
687.1	Tin and tin alloys, unwrought
689	Miscellaneous non-ferrous base metals employed in metallurgy
691.1	Finished structural parts and structures of iron or steel
692.1	Tanks, vats and reservoirs for storage or manufacturing use
693.1	Wire cables, ropes, plaited bands, slings and similar articles, not insulated
694.1	Nails, tacks, staples, spikes, etc.
694.2	Nuts, bolts, screws, rivets, washers, etc.
695.2	Other tools for use in the hand or in machines
696.0	Cutlery
697.1	Domestic stoves, boilers, cookers, ovens, space heaters n.e.s.
697.2	Domestic utensils of base metal
698	Manufactures of metal such as locksmiths' wares, safes, chain, anchors, pins and needles, springs, etc.

F. Mechanical Engineering

SITC	Description
711.3	Steam engines and turbines
711.4	Aircraft engines including jet propulsion engines
711.5	Internal combustion engines, other than for aircraft
712.1	Agricultural machinery and appliances for preparing and cultivating soil
712.2	Agricultural machinery and appliances for harvesting, threshing and sorting ('Harvesters')
712.5	Tractors, other than road tractors for tractor-trailer combinations
714.1	Typewriters and cheque-writing machines
714.2	Calculating machines, accounting machines and similar machines incorporating a calculating device
714.3	Statistical machines, e.g. calculating from punched cards or tape
714.9	Other office machinery such as duplicating and addressing machines, etc. and office machinery parts
715.1	Machine-tools for working metals
715.2	Metal working machinery, other than machine-tools
717.1	Textile machinery
717.2	Machinery for preparing, tanning or working hides, skins or leather
717.3	Sewing machines
718.1	Paper mill and pulp mill machinery and other machinery for the manufacture of paper articles
718.2	Printing and bookbinding machinery
718.3	Food-processing machines (excluding domestic)
718.4	Construction and mining machinery such as road rollers, excavating, levelling, boring, etc. machinery
718.5	Mineral crushing, sorting and moulding machinery; glass working machinery
719.1	Heating and cooling equipment

SITC	Description
719.2	Pumps and centrifuges
719.3	Mechanical handling equipment
719.4	Domestic appliances (non-electrical)
719.5	Other powered-tools such as machine-tools for working minerals, wood, plastics, etc.
719.6	Other non-electrical machines such as calendering machines, weighing machinery, spraying machinery and automatic vending machines
719.7	Ball, roller or needle-roller bearings
719.8	Machinery and mechanical appliances, n.e.s.
719.9	Parts and accessories of machinery, n.e.s.

G. Electrical Engineering

SITC	Description
722.1	Electric power machinery
722.2	Electrical apparatus for making and breaking electrical circuits (switchgears, etc.)
723.1	Insulated wire and cable
723.2	Electrical insulating equipment
724.1	Television broadcast receivers
724.2	Radio broadcast receivers
724.9	Other telecommunications equipment such as telephone apparatus, microphones and amplifiers
725.0	Domestic electrical equipment
726	Electric apparatus for medical purposes and radiological apparatus
729.1	Batteries and accumulators
729.2	Electric lamps
729.3	Thermionic etc. valves and tubes, photocells, transistors, etc.
729.4	Automotive electrical equipment ('Electric equipment for vehicles')
729.5	Electrical measuring and controlling instruments and apparatus
729.6	Electro-mechanical hand tools
729.9	Electrical machinery and apparatus, n.e.s.
812.4	Lighting fixtures and fittings, lamps and lanterns
891.1	Gramophones, tape recorders and other sound recorders and reproducers
891.2	Gramophone records, recorded tapes, etc.

H. Transport Equipment

SITC	Description
731	Railway vehicles
732.1	Passenger motor cars, whether or not assembled
732.2	Buses, whether or not assembled
732.3	Lorries and trucks, whether or not assembled
732.4	Special purpose lorries, whether or not assembled
732.5	Road tractors for tractor-trailer combinations
732.6	Chassis with engines mounted of a kind used for vehicles of heading 732.1
732.7	Other chassis with engines mounted
732.8	Bodies, chassis, frames and other parts of motor vehicles, other than motorcycles ('Vehicle parts')
732.9	Motorcycles, motorised cycles and their parts
733.1	Bicycles and other cycles, not motorised
733.3	Trailers and other vehicles, not motorised
734	Aircraft
735	Ships and boats

FULL TITLE OF THESIS

Submitted by Nabil Hamed Ezz Moustafa

For the degree of Ph. D.
of the University of Bath 1978

"Performance and attitude of firms in relation to a major expansion of their potential market; the case of British Manufacturing industries and the U.K. accession to the EEC"

SUMMARY "ABSTRACT" OF THE WORK

The study stands in two volumes:

Volume 1, being the thesis, consists of eight chapters. In the first chapter we discussed the aims and origin of the research. We traced the motivation in undertaking it, to an early work, which we previously conducted for a related study; together with the work done by similar studies or surveys. In the meantime we revealed the impact of such a custom union and a free trade area on the economic performance of the member countries and their industries.

In Chapter Two, we indicated the method we proposed for the study. However, in so doing, we reviewed the methods of similar studies and the limitations attached to them.

Chapter Three was devoted to a review of the literature related to the study.

In Chapter Four, we discussed the preliminary survey; the questionnaire. As it was the first stage in the investigation, the questions answered, the responses and analysis of the replies were indicated.

This was followed by the main survey, for which we chose as case studies, a representative sample of firms; British based manufacturing industries. In Chapters Five and Six we indicated the base on which those firms were selected, the way the collected data was presented, the approaches to the analysis; then we proceeded with the analysis.

We conducted a supporting study, which dealt with the overseas trade, in a selected manufactured commodities in specific industrial groups "section". The purpose was to relate the trade trend in each industry to those performed by the studied firms, and to relate both to the UK overall overseas trade performance. This is the subject of Chapter Seven.

The results were obtained and the study was concluded in Chapter Eight.

Volume 2 includes twenty-one case studies; as indicated above; that were the subject of the main survey.

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Nabil Hamed Ezz Moustafa
Bath, 1978

VOLUME 2 : CASE STUDIES.

CONTENTS OF VOLUME II

CASE STUDY No. 1

COMPANY: Bristol Engine division, Rolls-Royce (1971) Ltd.

LOCATION: Filton, Bristol

CONTACT: Ian D. Tinsley, Market Development

Rolls-Royce (1971) Limited

Bristol Engine division, Filton, Bristol

Contact: Mr. Ian D. Tinsley, Marketing Planning Manager

Background

The Company is called RR 1971, concerned with that portion of RR which continues to deal with aero engine design, development, and manufacture. In early 1971, the old RR went bankrupt, as a result, RR Motors, Cars, and other RR small companies, were wiped out. The current RR is only concerned with the application of gas turbines.

What the Company does is exactly the same as before 1971, except that the preferal interest, like RR Cars for instance, has been separated and has its own identity, and the Company have nothing to do with it.

As far as the status of the Company is concerned they were, before the bankrupcy, a public Company. The assets of the Company, relevant to aero-engines, were transferred to the government and are wholly owned by the government, but not nationalised.

In recent weeks, a decision was made that RR aero-engine, 1971, is to be owned by the national enterprise board. They still have to wait and see what this means in practice. Overall they are still a public Company.

In the articles of association, the company is supposed to operate as a commercial undertaking. They are still a profit motivated company.

The organisation of the company

This, recently, has been changed. The company now is composed of two divisions, one is the aerial division, which covers the application of gas turbines to aircrafts, the other is the Industrial Marine division, which covers the application of gas turbines to electrical power generation, gas, and oil companies.

The aerial division is composed of groups, which previously were divisions in their own right. There is the Derby group based at Derby. There is a manufacturer in Scotland which employs about

35,000 men. There is the Bristol group, which employs around 20,000 men and there is Helicopter engine group based in Watford, which employs about 10,000 men. The Industrial Marine division, which is based at Hamstead, in Coventry, employs over 1,000 men. This division takes the turbines manufactured in Derby for industrial marine use, and sells them to the final customer.

As far as marketing is concerned, there is a marketing organisation at Derby which deals with engines made there, there is another at Bristol which deals with the engines of the Bristol group. Similarly with the helicopter group.

The marketing department in Bristol consists of 60 people which is relatively small.

They are a capital goods business, the process of handling the sales is a long and complicated one. Different groups of people, in different stages of the sales process are involved. The marketing department gets involved in the very early stages, in terms of defining customer requirements. In so doing they work very closely with the engineering people, to modify the products to meet the requirements of the customers.

When it comes to detail contractrual negotiations, those are handled by commercial area, which is separate, but the marketing department keeps in close contact with them.

The after sales service, in their products, is very important; and is handled by the commercial area, with the service department, who have people in the field handling any day to day problems.

The Commercial area

There is a total commercial area which consists of different departments. The contractual negotiators, the contractual management, business planning, and the service department.

The Marketing function

The market department is composed of four main links.

A. General Marketing Manager for Civil Contracts

They deal with the committed civil programmes, i.e. they have an engine in a firm aircraft application. Marketing managers have Sales managers and Sales engineers reporting to them to perform the technical sales function. Their responsibilities are to assist the aircraft manufacturing division in selling to their final customers; i.e. to give briefings, presentations, the latest result of the technical development, to keep themselves briefed on everything that is happening to the engine within the organisation, actually they act as a kind of liason between the organisation and the final customer.

B. General Marketing Manager for Military Contracts

They do the same job as that in A.

C. Marketing Support Manager

He deals with the areas of sales services, visitors, security, personell, and administration. He also deals with sales publication area, which provides all the publications for presentation of the products.

D. The new businesses area planning

1. It consists of Market Research Manager who is responsible for the Marketing information about research.
2. Market Planning Manager: responsible for Marketing Planning.
3. Sales Manager, new business: he has the same technical support function, for new business, as the Sales manager has in the committed programme.

By new business two things are meant:

A. New application of the existing options, i.e. an engine after modification of certain parts may fit a new aircraft.

B. A brand new engine that has not yet found any aircraft application.

But the organisation differs between Bristol and Derby, in these ways:

1. There is no distinction at Derby between Marketing and Commercial in the same way there is in Bristol. Marketing and Commercial are in the same linked area, and that area is large,

in terms of manpower, as it carries out a wider range of activities.

2. The people within the Marketing area at Derby are not organised on an engine, or Project bases, as at Bristol. Those at Derby are organised on a regional bases.

At Bristol, the Sales Managers, have responsibility for a certain engine, they will deal with Customers for that engine, over the world.

However the Marketing Manager, at Derby do not concentrate on engines, but on areas, and sell Derby products to customers within their specific areas.

Competitors and Competition

Their main Competitors are the two major American engine manufacturers, "United Technology Corporation" and General Electric.

There are a number of other Competitors; smaller American manufacturers like "Garat Air Research".

There are engine manufacturers in Europe, for example Snecma, a French Company. In terms of store of the market, and across the Board technical Production Capability, the three big Western Aero engine manufacturers are General Electric , United Technology and Rolls Royce.

R.R. market world wide, and always have done, to that extent the Common Market, in Marketing terms, has made very little difference to the way in which they operate.

However, Competitive Conditions do vary from region to region, and Country to Country. On the military side there is a protectionist attitude, so it is very difficult for a non American Aero engine company to penetrate the U.S. Military Market, unless they have something very special to offer, that the American Manufacturer cannot.

These days any Aerospace Market opportunity is bound to have a political, not a commercial, dimension. This always has been on the Military side but it is there more and more on the Commercial side now.

The Commercial side of the Competition and the implications of UK joining the Common Market

As it has been stated, the political, or national interest, does influence the Competition Condition. The rules of perfect, or imperfect competition cannot be followed in Aerospace engines and products.

Basically the situation is as follows; in the western world the two major areas of Aerospace are the United States and Europe. America dominates, in terms of Aircraft and aero engine, because her home market is so large, both for military Airoplanes and Civil transport.

In recent years a great deal of debate has gone on in Europe, about so many European airlines purchasing American equipment. Various proposals have been put forward to remedy this, in terms of an integrated European Aerospace industry which deliberately sets out to design and manufacture products which the European airlines would purchase. There has been a lot of talks about fragmentation, national jealouses, and duplication of resources, which makes Europe a much more inefficient manufacturer. There has also been talk about the need to extend production runs, because with airoplanes, where the volume of the actual numbers produced is comparatively small, the unit cost will be sensitive to that.

*G. Jack referred to that problem by saying that Europe is exporting technology to the States, where they exploite it and then export the final goods of it to everywhere including Europe.

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*G. Jack, "Define Americans", Frank, 1967.

Over the last ten years, the debate continues over what Europe should do about its Airospace industry, one suggestion was to deal with the American companies, whereby they will build what they are good at, the long range Civil Airoplane, and Europe build what they are good at, the smaller computer type of aircrafts. That, of course, is a protectionist attitude. It would be a very dangerous policy to adopt because, despite all the pressure which has been put upon European airlines to purchase European equipment, they have only succeeded in avoiding doing so. In other words, just because a European aircraft is designed and developed, there is no guarantee that the European airlines are going to buy it. If they have good service and good airplanes from Boing, Donald Douglas, or Lockheed, in the past, why go European? Unless that European airplane offered them something which they believe is going to make them more reliable, and expand their traffic.

There is another point of view within Europe which says that, it is very dangerous to believe that the market can be managed in this way. What needs to be done, is to build airplanes, for the world market, not just for Europe. If they are good enough for the world market, then the European airlines will buy them.

What is needed is to improve the product, the project definition, the timing, and the pricing, and it is only by doing that, making a really super product, that the European will recover the European market.

There is a conflict between the inward looking of the protectionist attitude, and that of open free market enterprise.

There is a further problem, of course, in that what may appear to be best, from the point of view of the European Airospace industry, which is the way the Industrial Commission of the EEC tend to look into the problem, may not be best from the point of view of the individual manufacturers concerned, and R.R. is a classic case in point.

Early in the 1960s, R.R. as a company, decided that if they were going to maintain their position as a world aero-engine manufacturer, in parallel with the American, they had to develop, and design their own B engine. That eventually became the RB211, which led to the bankruptcy of the old company.

Looking to the reality of the market they felt that if the engine was going to be successful, they had to have it lodged in an American aircraft. They did exactly that with Lockheed, and that aircraft is now taking a very substantial share of the world market.

At the same time, Europe was attempting to define a new aircraft for the airline, which is now on the market under the designation A300B. They proposed for that Airoplane on a rather larger version of RB211. There came a point in the mid 1960s when they, as a Company, had to decide whether they wanted to go for an American or European airoplane, because of the vacillation that was going on over what Europe should do. The Civil Service and politicians were involved, nobody could decide exactly what they wanted, and the French were arguing with the German, and so on. R.R. said "to hell with it, because that airoplane is not going to get the market anywhere, we are going to go for the American Airoplane, and we went for the RB 211, and we forgot the European airoplanes."

In the long term, it bankrupted the Company, but in terms of keeping Rolls Royce at the forefront of Aeroengine technology, and preserving them as a major manufacturer, it was a right decision to take. The Aeroengine market place is with the American airoplanes which take the major market share, not only in the States but in the ROW as well.

There is no doubt now that the RB 211 is very well placed to gain a major share of the world market in the next 25 years.

If they had foregotten about the American airoplane, as their European colleages might wish them to have done, and instead they had concentrated on the European market, they would not have had this advantage.

So there is a conflict between what appears to be a simple solution from the European point of view, and the commercial reality which is that the major market is in America, and they should get them a share.

Why they did not keep the two options opened, i.e. getting a share in the American market, and working in close cooperation with their European colleages, keeping all options opened. Because the reality of the situation was that the debate was never conducted on these terms; the political fact is that they were directed to choose between these two options.

As far as the EEC Commission is concerned they are always looking at it from the point of view of European Aerospace industry, and that gives them a prospective over the situation which is not necessarily shared by the individual manufacturers.

Pricing Policy and the devaluation of the £

It varies according to the type of product being talked about. If, for instance, they are selling equipment to Her Majesty's Government, then the price is subject to detail negotiation between the Government and R.R.

If the Commercial side of R.R.'s pricing policy is taken, in relation to the RB 211, for example, recognising that the Major Market of that engine is in the States, all the pricing of that engine is done in $; the allowed inflation on these prices (written into the contract signed with the airlines). This will depend, not on U.K. inflation rate, but on U.S. inflation rate, of labour, and raw material costs, because inflation in the States is less than that of the U.K. They hope that the continuing devaluation of the £ has the same effect, in terms of recovering increasing costs. They have a standard pricing approach; but when they get down to detailed negotiations for each individual case, they depart from that approach.

In the selling process they are involved in a protracted negotiation with each customer, and have to tailor the contract to the needs of the customer and in each circumstance. Any standard in the contractual terms that R.R. may have established for their internal Pricing Policy changes according to the situation. They try to keep a reasonable margin, which may change according to the descretion of the negotiators.

Every price decided for each Contract depends completely on each customer, how badly the company wants the business, and to what extent their production lines are running. This is dangerous, because ultimately, the business is only worth carrying on, if across the board, the margin is acceptable, the danger of treating each customer as an individual case is, the kind of margin the company is after may not have been achieved. That is a risk they have to take, and they have to trust the skill, and judgement, of the negotiator on the spot.

There are certain factors they do take into account, regarding their Pricing Policy, these are the world market, the previous contracts, and the competitors prices. Although the competitors prices are very important, they have to take things in total; it may well be that their engine, technically, does something which the competitor's does not, and therefore they can set that off against the price, which might be a bit higher. It may be that they have a better reputation abroad than their competitors have, or that the customer has used their engine in the past, and they are used to dealing with the R.R.

They deal with each case, individually, keeping in mind all the mentioned arguments.

<u>The level of the Contractual negotiation</u>

It is also important to understand the level at which the Contractual negotiation is taking place. It may be, for instance, that it is relatively small Contract, so the negotiator is allowed to go on with the requirement. But if it is a major contract, with a major airline, or they are trying to get a new engine in, it is a

different case. There are a number of different customers they are selling to, in certain cases, if it is an existing engine, they may be dealing directly with the same line; it it is an engine dealing with a new airplane, the customer is not the final buyer of the airplane, but is the manufacturer. If it is a particularly important program, the negotiations are handled by the person right at the top, the chairman. He will be talking in a direct basis with his counterpart for the customer. Obviously a lot of preparatory work will be done by the people concerned at all levels, but it is what they decide at the top level that matters.

The main activities

A. The Aerospace engine.
B. It's spare parts.
C. The service provided after sales.
D. Overall work for the engine itself for certain customers geared to do their own work.

The Growth of output from 70 - 75

If the company is taken as a whole, the growth in output, in real terms, is comparatively modest. As far as Bristol is concerned, the total growth in output has not altered very much in real terms.

The Economic situation and its implication to the growth of output.

The service (military) supplies, and hence output, is not sensitive to the trade cycle, but the commercial products are. If we take Derby,whichare selling RB211 to the civil airlines, they are very sensitive to the economic situation. Air travel is always sensitive to the general economic situation, and because of the recession, airlines, are not placing orders for new aircraft. Obviously Derby has been caught by this as there are no orders for the engines for the new civil aircraft.

SPECIAL FEATURES

Monopolistic Condition

Government Purchases

As far as H M G is concerned, they are in a monopolistic situation. The Government would not buy engines from anywhere else for the military aircrafts.

Equally if British Airways pruchased airoplanes, it is extremely unlikely to buy an aircraft which has not got R.R. engine.

Technology

The other factors which give R.R. the monopolistic condition, is technology, in their case they have superiority, and a monopoly, in an engine used in the virtically take off compact airplane. It is the only operational vertical take off aircraft in the world. As a result of that superiority they sold a great many engines, not only to the British Marine, but also to the U.S. Marine. That is an example of the expectational circumstances that need to exist before they are able to penetrate the U.S. military market. The technological superiority gives them a monopolistic condition.

Looking ahead

Potential Activities:

1. They are developing the RB211, because although the market is open to it, they have to consider its commercial value in 15 years time.
2. They are also looking at developing what is called an intermediate cross engine, to power an aircraft with a greater number of seats. That could be a large part of their business in the future.
3. They are looking at new engines with new characteristics, low noise and low pollution.
4. They are looking at new engines for business trips.
5. There is a joint programme between Germany, U.K. and Italy, in the military side of a new engine. Which ultimately could be benefitial to R.R.

R & D

Research and development in the aerospace is vital. Aerospace companies spend a larger proportion of their resources, in the research and development than any other type of business organisation. About 25% of R.R.'s total turnover is directed for R & D.
The interesting thing is that the bulk of the amount spent on R & D is not internal finance, but is paid for mostly by the government, and R.R. would make a profit on it.

Capacity in use and planned

R.R. are tempted to use their capacity in full, but the basic problem, in Bristol, is that they always have a deviation between what is planned and what is used, that is because they produce according to orders.
In Derby, because they produce for commercial aircraft manufacture, they have not got full utilisation of capacity because of the economic situation.

Profitability

R & R in the past 5 years has had declining profits. The problem is, although they have claimed profits, like any commercial undertaking, they are totally financed by the government, and therefore their accounts are nearly book-keeping, which do not mean a great deal, in terms of how the resources are profitable.

Diversification

Like any Aerospace company, they find it difficult to diversify. They used to have R & R Cars, which was a very profitable undertaking, but that was in existence from the very beginning, and they diversified from cars to Aero engines.
If aerospace companies find a spin off of their activities, they tend not to diversify those areas, but to sell it. This is because they are not inclined to go into this area, or feel they do not have the skills, and the expertise necessary to commercially exploit it, or do not have the capacity.

The only exception to that statement is Hawker Sidly, which began their diversification planes in the early 1960s. They suffered a lot of problems for a few years, but are now a diversified company in which Aerospace is a significant proportion of their work. A similar company in the U.S. had exactly the same problems in trying to diversify. Aerospace is a very specialised industry.

The effect of the elimination of tarrif in the companys performance.

There has been very little. The only specific case the company can recall, is the tarrif which previously existed on an engine as part of a certain aircraft, has been reduced, and so helped the reduction of the price of the aircraft. This engine is now at the end of its life. So there has hardly been any effect from tarrif reduction.

What tends to happen is that most of the engines produced in Bristol are not for U.K. air frames, but for American or European airframes.

When there is a co-operative programme with a foreign manufacturer, it ceases to be a U.K. venture, thus eliminating tarrifs does not count here.

The fleating of the £ and its effect.

It helps where they have a product, whose major market is in the United States, like the RB 2 11. With the ROW the situation is similar to that of the United States, any devaluation in the £ helps, because it reduces the price, in terms of how many pounds can be obtained for dollars. While devaluation is keeping up with the differential rate of inflation, R.R. should keep the position of their price. The exception to that is the rising cost of imported materials which go into the engines, also because of the devaluation of the £, but that is a small proportion of the total.

The situation in Europe depends upon how the engine is being sold. If dealing in the foreign currency, then more pounds are gained for a given European currency. If dealing in £'s it will depend again on

the other currency, and its situation, which will effect the competitive position of the products. R.R. will deal by individual cases, where the £ and its price is not the effective element in the negotiation. The devaluation of £ is noticed when an R.R engine is being installed in a new aircraft being bought abroad. The more the devaluation the more the competitive price, and because R.R. has been quoting a price in sterling their price has been competitive, but only marginally so because of inflation and rising costs.

The effect of Britains entry to the community in the years 73 - 75 and the expectation for the years 76 - 80.

In the years 73 - 75 they can say that the effect on sales was nill. The expectations in the 5 years to come, 1976 - 1980 is the same again.

The explanation is that being a member of the EEC R.R. have to work towards European aerospace programmes, not necessarily towards an integrated aerospace industry but more products on a European basis.

That does not necessarily mean more business for R.R. engine because, each country will want to have the manufacture and development share of the programme equivalent to their own share of the total market. A case in point is the military programme between U.K., Germany and Italy. The share of the U.K., through R.R. is around 40% - 45%, the German share is slightly less than that, 35% - 40%, and the Italian share is the remainder, 15% - 25%. Those percentages correspond to the anticipated use of the aircraft by each country. So there is nothing to increase the share of the market by the collaborative programmes, which is the chief aim of the EEC commission. R.R.'s position in the 1950's and 1960's when Britain was capable of financing the development of Aero engine and airo-planes on its own, they always hoped to, not only satisfy their domestic market, but export as well; if they collaborate the option of export will be removed. The country to which they would export is sharing the

work and programmes itself. They cannot avoid this situation because the cost of developing aerospace products is so great, that there is no way the U.K. could develop any major aerospace programme herself.

Joining the EEC will give R.R. a bigger impetus towards more collaboration with EEC partners.

Other areas of advantage in joining the EEC.

There has been recent proposals from the industrial commission of the EEC regarding the European aerospace market, both manufacturers and customers. Rather than sitting by, as the commission has done so far, to let member countries come together on an arbitrary basis to deal with advanced programmes, the commission will increasingly want to control for itself the generation of advanced programmes. The key to this control will be the Commissions control of the supply of finance to those programmes. At the moment the Commission devotes no money to aerospace, it could well be that the EEC budget will devote money to the aerospace industry.

If that is the case, with the community holding an increasing share of the initiative instead of individual countries, then the balance of power will shift with the commission being more responsible in deciding what will be done. Instead of the manufacturer, lobbying their own government to do something, the commission will undertake it.

What they have found in Europe, as regards all the technological industries in the EEC, is that national independence, jealousy, suspicious, and distrust, are as strong as ever and it will take a long time to overcome them.

One of the major long term opportunities in entering is that the community itself will have control over the finance of the technology programme.

The Competition from European countries to penetrate the U.K. market.

None has occurred, mainly for the same reasons as R.R. getting into the EEC. With business jets, a French aircraft, run by an American engine, which R.R. assumes was subject to a tarrif and the removal assisted it's sale in this country. There is no firm evidence however that the sale of this jet would not otherwise have accrued if the tarrif had not been removed.

The expectation of the increase of the sales due to the entry

It was stated in the preliminary questionnaire that the increase will be 5%, but that was an estimation, and may never happen for the reasons mentioned above.

Economies of scales the Company enjoys, and the EEC.

The longer run process has a tremendous effect on the cost in their case. Making more engines, the cost comes down.
If they are engaging in a collaboration programme, they can expand the market sufficiently to give them the kind of economics of scale.
It may not increase each manufacturers total sales, but it will mean that the product is made more efficiently, and may ultimately improve the prospect of the airoplane outside the countries that are collaborating.
This was the problem R.R. had to face regarding the American Companies who have advantages because of the extent of their home market (civil and military), which always has been larger than R.R.'s.

Spreading initial costs

They have not experienced that yet, because none of the collaborative programmes have achieved the volume of sales that would enable this improvement to accrue.

The use of high capacity machines

Certainly, R.R. use sophisticated machines because the materials necessary to make aero engines need high quality machinery.

CASE STUDY No. 2

COMPANY: Reed Group "Paper Division"
Reed Paper & Board (U.K.) Ltd.

LOCATION: New Haythe House, Aylesford, Kent.

CONTACT: Dr. J.D. VINCENT, Director of Economic Planning

Reed Group "Paper Division"

Reed Paper & Board (U.K.) Ltd.

Background:

The Company is part of the Reed Group, which holds several ventures, apart from the "Paper Division" which this case study is about. These ventures are International Publishing Corporation, Mirror Group Newspapers, Wall Paper Manufacturers and Reed Building Products.

There is considerable diversification from paper and converted paper products, packaging, publication to building products, 'do-it-yourself' products and plastics.

Reed Group & Paper Division has been successful in recent years in improving its return on capital employed. This has been due, in part, to higher prices for its products, and to maximising the efficiency with which its operations are conducted. However the effects of inflation on capital requirements have added greater emphasis to the Divisions plans for developing, alongside its papermaking operations, its less capital-intensive activities, including the expansion of such operations within the EEC.

Reed Paper & Board (U.K.) Ltd., although affected by raw material shortages, and restrictions of price controls, in the last 2 years (1974-1975), was able to operate successfully and very profitably at, or near, full capacity.

As a side-effect of the inflation, it was hit by the downturn in the market due to substantial de-stocking by customers.

It made advances in the use of secondary fibre, made from waste-paper. This it sees as offering the main opportunity for the U.K. paper industry in the future.

In paper converted products the company is considered the largest paper product dealer outside the U.S.A.

There is considerable diversification; within the group; from paper plus converted paper products, packaging, and publications, to building products, do-it-yourself products and plastics.

Main activities

The company produce a wide range of paper products, from new prints to printing, packaging, aids, tissues and a very wide range of other paper products. Their newspapers have the largest circulations outside the U.S., and in terms of magazines the company is producing the largest number of mass consumption magazines in the world.

Who handles the sales

It varies according to the product, in the paper and wall paper sector, the company has a decentralised sales structure i.e. the mills which produce the products have their own sales and marketing organisations.

The Sales function and the marketing function

The two functions are merged, since the company has profit centres. These in the case of mill operations, consists of one mill, or several mills combined. The profit centre itself has its sales, marketing and staff organisations, and is unified under the head of the profit centre, who may be a marketing, sales or production man. He is responsible, in financial terms, for the whole range of activities of the profit centre, from purchasing to manufacture, and selling of the product.

The company has had different structures over the last 30 years, the above structure has been used since 1971, and they are satisfied with it.

Competition

Historically the company has never had a monopolistic position. The comprehensive legislation against monopolies and restrictive trade practices preventing a company having more than 30% share of the market, stops this situation developing.

Regarding their main competitors, in the home market these vary according to the range of products, and because of the nature of the paper products.

Paper is a versatile industrial material, which has been used as a raw material for hundreds of uses, so the segment of the market is important to define before analysing the competitive position.

The company is the supplier of material to a great many industries, and even if the analysis is limited to corrugated cases there are practically no manufacturing industry which do not use corrugated cases for their products.

Pricing Policy

In the U.K. due to the prices and incomes control, the policy has to change from one year to another. There is a price code which controls the cost which the company can pass on to the customer; the code differs from one industry to another. In the companys group of industries (Group 1 because of the size of the operations and the annual turnover) the company cannot produce any price change without specific approval from the price commission. The prices at the moment, do not provide a satisfactory return on capital invested.

Growth of trade in 1971 - 1975.

In paper products, the company's trade, in sales value, over the past five years has been increasing. That is due, to a large extent, to inflation rather than to an increase of profit margins, or earning capacity of the paper and board making operations.

Output and sales, in volume, (ton) has declined because there has been two bad years (1971 and 1975), during which the company, and the whole of the U.K., and European paper industry (in Macro economic terms), had very bad demand and extremely difficult market conditions. This did not allow a sufficiently high utilization of capacity, some of the company operations, produce losses, and over the past five years the company shut down their non-variable operations.

Special features the Company possess which helps its competitive position in the market

In a number of sectors of the company's activities they utilise advanced technology. They believe they are specialists, and indeed

pioneers, in the use of recycled fibre i.e. the use of graded or ungraded waste paper which is converted into various paper grades, this saves the country many millions of pounds in imported pulps.

In other sectors, the company believes that their technology is superior to that of everybody else, not only in the U.K. but in Europe.

R & D

As stated above, the technology of the company is superior to similar industries in Europe, due to their R & D activities.

The group has a large organisation, known as "Reed engineering and development services," in charge of engineering development. product development, and also undertakes consultancy services for outside firms. They have built paper and board mills all over the world.

Marketing other Products:

The company does market products other than their own. They have a large merchant subsidiary which will sell any company's products, competing with all market partners. Their merchant subsidiary buys in whatever market it wants, and sells whatever it can.

The paper division consists of the mills, the merchant organisation, the engineering and developing system and other activities.

Modification of the product:

They do modify their products occasionally, according to consumer requirements,"if they did not, they would go out of business."

Brand name:

In certain market sectors, they have brand names; that isif the brand name will add anything to the results, of their market effort. In certain areas there is no need for this as the users do not care about the presentation of paper.

Manufacturing operation in the EEC Countries

In the paper sector the company did not have any operations before 1/1/1973 (The date the U.K. joined the EEC).

Size

The company employs over 2,000 employees i.e. it is a large firm in terms of number of employees.

Trading before 1/1/1973 with EEC countries:

Yes, they did trade and they still do.

The effect of the U.K. entry into the EEC on their trade:

One result was that the internal tariffs between other EEC countries and the U.K. are being progressively abolished and will become nil by 1st July, 1977. This should encourage, and facilitate, mutual trading between membersof the community. It will depend on comparative cost and technological expertise, and how the U.K. will sell in a different market sector.

In very general terms, there is not a great difference between the majority of European and U.K. producers with the possible exceptions of France, and Italy, there is neglible production of pulp. From the point of view of competitive general advantage, and industry structure, the U.K. structure is similar to that of the paper and board industry on the continent. There are no great general advantages on either side, and one can only speak in terms of specific market sectors in assessing the relative advantages in comparitive cost and technological knowhow.

In sectors where the U.K. has a high relative advantage in technology the company is well placed to increase exports.

Qualifying the effect of the tariff elimination:

"This is a complex issue as it can only be answered in terms of specific grades of paper and boards. Whereas the paper industry of the six had a common external tariff, harmonised by the time the U.K. joined the community, the U.K. tariff structure had developed over many years, because tariffs are a tool of trade

policy. The difference in the relative tariff protection of various grades are not identical, "but the company do not believe the elimination of customs duty will play a significant role for two reasons:

A. The level of tariff protection was not very high.

B. Tariffs will be eliminated over a long period of time, so the change from one year to another will not be significant. "It will be a gradual slow process of mutual adaptation to the new situation."

This applies to the competition and penetration of the market from both sides (the U.K. and the EEC countries).

Although there may be increases in certain market sectors, in favour of either the U.K. or another community member, taken all paper and board grades together, the company do not think that the relative magnitudes of exports will change considerably.

What would the trend of the company's trade with the EEC countries have been if the U.K. had not joined the EEC?

As the company traded with the EEC before the U.K. entry, the company expected, had Britain had not joined the community, that their relative trade volume would have remained the same.

The company was not a strong exporter in areas where they had technological advantages, but as they are expanding output in those sectors they expect exports to the EEC will increase in volume terms, but not significantly. It will be a slow process.

Qualifying the effect of the devaluation of the £ and the state of the British economy in the years 1973-1975 on the company's trade with the EEC:

"The company believes that this is a complex issue, the devaluation of the Pound does increase competitive power, products appearing cheaper abroad, but this is an over simplified presentation of the picture."

In an industry which does not have abundant raw materials within the national boundaries, paper producers in this country have to

buy pulp from other regions. As the exchange rate of the U.K. currency declines, raw material costs increase, offsetting any advantages of lower unit costs, and the ability to offer attractive delivery prices to overseas customers.

The outcome will depend on the extent to which a producer can put domestic raw material into the product. The company believes that their consentration on the use of domestic fibre, is an advantage they have over other U.K. paper producers who are using imported pulp to a much greater extent than the company.

The company is optimistic about inflation and recession, their attitude being that corporate success in commercial terms, profitable growth and ultimately corporate survival, depends on the company's ability to be more cost effective than their competitors. They believe that they can do this irrespective of the state of the economy. However, the state of the economy is important because, looked at relative to the production side of the company, if the performance of the economy is not promising, demand would decline irrespective of the company's cost structure. That would effect the economies of scales the company would have obtained, and so would increase the company's cost, ultimately effecting the company's trade policy.

The company is in a different position to their EEC competitors as they are a highly diversified company, not only in terms of product profile, but also in the geographical break down of their operations. They are present in a number of other important markets for paper and paper products and they have greater flexibility in meeting the less favourable outlook of the national economy. They have the possibility of exporting, or increasing output, in other more favourable product areas.

But in macro economic terms it is a very important factor of international economic development that countries, whether industrialized or developing, are becoming more interdependent. In a situation where the GDP growth of the U.K. may not be so

high, in a, year than Germany, or France, the U.K. can always benefit from the higher growth rate of other markets by exporting greater volume to these market. As evidence of that, the latest trade figures of the U.K show that exports to Germany have increased considerably as a result of the growth rate of Germany (O.T.S Dec. 1975). So, the company do not operate in a closed compartment but in a sophisticated industrialized international system.

Qualtifying the effect of the U.K's entry on the share of the market in the U.K. and EEC regarding the company's trade:

In paper and board products, no significant change either way. In different market sectors there have been changes, depending on competitive advantages, relative unit costs, and technological supremacy. The penetration by EEC suppliers will not be significant as the company possess relative strength.

The advantages for the company in Britain's access to the EEC

"Very little for the paper and board industry and the company. The paper industry however, is not a very significant contributor to industrial output, or national income, in the U.K. they did not weigh heavily in the balance drawn up by the government of the day."

The disadvantages of Britain's entry into the EEC for the Company

The company stated that "this was negligable, they are trying to make the best of the EEC.

In a referendum the people voted to join the EEC by an impressive margin (2:1 for) for long term reasons, economic, political, and strategic. The company are in the EEC for the long term as well. This does not apply to the paper industry to any extent, but starting to operate in an export market requires lots of changes. It is a fallacy to assume that the European Community is a Common market, it is a collection of national markets, an uncommon market. To become a common market needs time which was certainly true in the case of the U.S. economic development, which took several years."

The need to build market facilities in the EEC

The company did build new marketing facilities in the extended market, but this varied from market to market. In certain sectors it was enough to have sales agents, in others with agents storage facilities, in others it is desirable to have manufacturing facilities. The company is moving into the extended market in the way required by the market and the industry sector. "The company had done its home work, and are implementing this flexible approach."

Other barriers to entry into the extended market

As it is a collection of markets the methods of penetration it varies. Some of the EEC countries welcome investment, so the company invested, others like national solutions, so the company did that. Some countries raise no objection to accusation of national firms. It requires a flexible approach which the company are able to meet. In certain countries they have acquired subsidiaries, moved production operations, in others they have agents. In others they have gone into partnership with local firms. The burden of the additional work, required by the commissions of the EEC, has been met. Also they have overcome any national feelings by the above flexible policy.

The harmonisation of the paper industry in the EEC, the company assumes will take a long time.

Steps taken by the Company in preparation for the U.K. entry into the EEC.

The company had done the necessary home work for entry. They have done market research, structural analysis in depth, looked in the company, balance sheets, set targets and are in the process of achieving those targets.

There was no need to restructure the organisation to meet the requirements of the extended market as the company has a decentralized organisation, the best for profit, and they intend to stick at it.

The benefits the Company gained from the EEC trade agreements with the ROW

No gains because the company is not active in the countries with low dimention, and as these agreements change from day to day, in the long run it may benefit them.

How the company sees the future of its performance in the EEC

"It is encouraging, as the future of the EEC is to emerge as an aconomic power between the two superpowers, the U.S. and the USSR. As time goes on, they will certainly have a market which is as Common as that enjoyed by the States of America, a federal country."

CASE STUDY NO. 3

COMPANY: DEXION - Comino International

LOCATION: Headquarters, Wembley, Middlesex

CONTACTS: Mr. NEWTON) Group Assistants
Mr. LEVERICK) Marketing Managers
Mr. LIDINGTON)

DEXION-COMINO INTERNATIONAL LIMITED

BACKGROUND

Dexion-Comino International Limited, an early pioneer in the business of storage and handling, is today a world leader in the industry. From its headquarters in Wembley, England, the Company directs both UK and overseas operations, the latter comprising five manufacturing subsidiaries, licensees in 16 countries, and distributors in 96.

Growth of the Company

The outstanding development and achievements of the Company owe much to the invention, manufacture, and marketing of a unique product - Dexion slotted angle. Demetrius Comino, founder, and now president of the organisation, was ready to produce slotted angle just as the Second World War began. He had devised the construction system to solve equipment problems at the small printing works he had founded in 1927. By 1947, an acute shortage of factory equipment reinforced the need for such a product. With a capital of £14,000 ($ 32,500), half of which was a bank loan, and a bundle of notes and diagrams, he set up a small factory at Chingford, Essex and went into business as Dexion Limited.

Since its early days, slotted angle has been put to a prodigious variety of uses; shelving, of course, but also machine-guards, grandstands, benches, buildings, radio masts, and shark cages. Proof of the soundness of the original idea is witnessed both by the fact that the product has undergone only one major change since its invention, and by the number of competitors who have copied the product.

Once in production there was a brisk demand from overseas as well as the UK, in spite of the fact that shortage of steel meant that the UK market would temporarily be based upon an aluminium alloy angle. All the steel that could be obtained was reserved for overseas customers and an export department was set up as early as 1949. Mr. Comino was convinced from the beginning that there was a world market for slotted angle and that exports were vital to the economy. Business was, therefore, systematically expanded overseas as well as in the UK. Beginning with the US licensee - Acme Steel Company - subsidiaries and licensees were established and distributors appointed in five continents.

The pattern continued during the 1950s and early 1960s with the growth of Dexion based almost entirely upon slotted angle, but in 1964, when Group turnover had risen to £9m ($20.8m), the first significant steps were taken to extend the product range. Two new systems were launched, both devised by Dexion engineers, Speedframe, a square tube construction system developed to provide high quality frameworks at low cost, arose out of an investigation into one of the marketing opportunities revealed by slotted angle sales. It is a widely used system in industry, schools, libraries, and the display and exhibition fields. Speedlock adjustable pallet racking, however, was the first Dexion product designed exclusively for storage purposes. It was becoming evident that slotted angle was not the most efficient answer to heavy-duty storage and the increasing use of pallets in industry created a demand for specially designed pallet storage systems. Speedlock was introduced to assure Dexion a part of this rapidly growing market. The system has subsequently been refined and improved in the light of experience and is now the UK market leader in adjustable pallet racking.

During this time, Dexion Limited was gaining unrivalled experience in solving storage problems in many sectors of industry. The introduction of Speedlock pallet racking had widened the scope of operations still further and given the Company an insight into larger and more complex storage situations.

Increased emphasis on the concept of the unit load was indicative that the market was becoming more receptive to sophisticated techniques and systems. Rapid and efficient turnover of goods in transit and in store was assuming a new importance. Among industrial leaders the movement towards more streamlined production and higher productivity was well under way. Farsighted men were now examining new areas of economy and were finding them in the excessive cost of storage space and the slow turn-round of goods. By 1967 Dexion had so organised their experience and expertise that they were able to deal with total storage and handling projects on a contractual basis. Large schemes involving the choice of sites, design of buildings, and provision of ancillary resources were to become a regular feature at the top end of the Group's operations. Value of such projects ranges between $1m and $2.5m.

GROUP STRUCTURE

In 1968, its 21st year, the Company went public. New companies were acquired, new products launched, new enterprises set in motion overseas. Progress was at such a pace that by 1970 the need for formalising these developments had become clear. Accordingly, the firm was restructured as a group. The parent company took the name Dexion-Comino International Limited and retained principal manufacturing functions, provided group marketing services, public relations and advertising, group financial control, design, research, and other management services.

In the UK the Group directs its activities through the following operating companies:

DEXION LIMITED: Responsible for the sale of storage, handling, and allied industrial equipment throughout the UK. The Company has a special projects division for handling the larger more complex schemes. It operates through 7 regional offices and through a network of more than 450 distributors. It has an on-site construction team 150 strong. The Office Planning Division is a separate unit working within the Dexion Limited organisation.

DEXION OVERSEAS LIMITED: Sells direct or licenses the sale of constructional, storage, and materials handling products in all export markets other than those served by overseas subsidiaries. The Company employs staff throughout the world and has its own projects division for handling large scale schemes.

BROADWELL BUILDINGS LIMITED: Employs 65 in Brierley Hill, Staffordshire, and designs, manufactures, and fabricates structural steel work for all types of industrial buildings and raised storage areas.

CORD CONSULTANCY LIMITED: Operational research specialising in stock control, distribution, and factory and warehouse location. There are subsidiaries in Australia, Austria, Belgium, Denmark, France, Germany, Singapore, and the USA, associated companies in Greece, and India, and licensees in 16 other countries. It was strength of the total overseas marketing network that won the Company 'The Queen's Award to Industry for Export Achievement' in 1970 and 1971.

More than 700 people are employed at the Hemel Hempstead plant, the larges and most technologically advanced factory in the world for storage equipment manufacture. This plant covers 325,000 square feet in area, of the total UK production area of 445,000 square feet. One million feet of slotted angle is produced at Hemel Hempstead each week, 60% of which is exported.

THE PRODUCTS

There are sixty-four separate product ranges listed in the Dexion Storage and Materials Handling Catalogue, providing a single source for Industry's total requirements in the storage and handling field. Storage equipment produced by Dexion ranges from hand loaded slotted angle, boltless and cantilever shelving, small items storage and handling systems, to Speedlock pallet racking and its sophisticated derivatives to Pallet Glidestock liver storage and Poweracks. An example of the advances of the more sophisticated systems is indeed that of Poweracks - Speedlock pallet racking mounted on a powered mobile base. Since 1970 £2m worth ($6,340,000) has been sold with an average order value of £35,000 ($111,000).

THE STAFF

Even from the earliest days, Mr. Comino was determined to lay strong foundations for an efficient and resolute management team. Staff training became one of his dominating interests. An entrepreneur himself, he encouraged the same spirit to those around him. After training his staff, he would let them have their heads to adventure and innovate wherever they could. Profits were mainly ploughed back into the business. Steady and firm-rooted growth was the consequence and this continued until the late fifties and early sixties. However, by the time the firm

was employing 1500 people and measuring its turnover in millions, it was no longer practical to let everyone take the bit between their teeth. The challenge, of course, was to retain the spirit of enterprise during these years of rapid growth.

A cornerstone of company thinking on business procedures is the principle of motivation. The need for good working conditions, welfare and security are seen as an essential foundation for performance and job satisfaction. Further there are the more significant motivations of the recognition and reward of opportunities taken and results achieved. Investment in the right calibre staff has always been paramount importance. Staff are recruited who are prepared to challenge the accepted way of doing things. The fact that everyone, including the Chairman, is on first-name terms and that communication in the landscaped offices is easy and informal, helps to establish an environment which makes a healthy contribution to Dexion's growth. Following the 1971 Industrial Relations Act, a new development within the company has been the formation of Staff Associations. Although staff relations in office and on factory floor have always been good, the company felt it should approach the new Act in a positive manner and take the opportunity to use the specified machinery to improve communications, as well as working conditions, where necessary.

Last year the Dexion Group had a world turnover of £40,000,000 and a pre-tax profit of more than £2m. The future growth and potential of the Group can be summed up in the words of the President, Mr. Comino, "Dexion, I hope, will be leaders, not followers, in industry. If we are to stay leaders we cannot wait to be forced by circumstances to do whatever has to be done; we must learn

to look deeply into what is happening and to do things and make changes long before we are forced to make them."

INVESTMENT

In 1976, DCI invested about £300,000 in machinery, vehicles, building, etc., which was slightly less than the figure set aside for Depreciation. Bearing in mind the increasing price of replacements, this is not a healthy state of affairs, but the Company look forward to more investment in UK manufacturing facilities. The value of the parent company's stake in other Dexion companies was reduced in 1975 by £1,721,000. When they were acquired by Interlake it was logical that the assets of Dexion Inc in the USA would be transferred to them as were also those of Dexion S A in Belgium. In fact £866,000 of this figure remains as a long term debt due to Dexion from Interlake.

FIVE YEARS' SALES AND PROFITS
(before tax and Extraordinary Items)

1971	1972	1973	1974	1975
SALES: £000				
26,962	33,212	39,736	44,369	41,331
PROFITS: £000	875	2,081	2,521	814

EXPORTS AND FOREIGN CURRENCY EARNINGS

Their total exports in 1975 were £6,916,000 compared with £7,032,000 in 1974, and in addition they earned dividends from abroad of £80,000 compared with £164,000 in 1974. Although Dexion Overseas Ltd., were able to increase their sales considerably, their subsidiaries in Europe took less from them because of the economic situation. Also they lost very large

exports to the USA, where Interlake now supply most of what D.C. used to ship.

Pricing Policy

This has changed, with the economic situation; over the last eighteen months they have developed a policy of charging what the market can bear. The competition has been strong. Standard transfer prices from Hemel Hempstead to all subsidiary companies have, in certain instances, depending on the size of the project they are quoting for, been adjusted in order to get business. So that at the moment, in certain areas, there is definitely a flexible pricing policy. The situation can change quickly to the reverse if the company could not supply goods quickly enough.

Profitability

The executive I interviewed felt he was not qualified to comment upon whether levels of profitability were satisfactory or not.

Range of Products

The company produces products which are broadly under the label of storage products - pallet racking for warehouses for the storage of palletised goods. There are various versions of this - static types; moving types of pallet racks and pallet racks where the pallets themselves move through the racking on glide wheels. The pallet racking is a major part of their business. There is the ordinary shelving side - hand loaded shelving as opposed to pallet racking which is loaded by fork lift truck - and again there are various types. One of their products is called Impex, a successfully selling shelving system which can be put together without using nuts and bolts. Then there is the cheaper and more basic shelving which is made up of slotted angle, where the customer

simply bolts the shelving up himself in many cases. There is also a product which fills a market gap midway between pallet racking and hand loaded shelving. They also have items in small parts storage, such as small plastic bins, which are hooked onto a louvred panel. They supply conveyors, a materials handling product as opposed to a storage product, but they are not large in this field. These are their basic products. They also buy in and merchandise associated products like hand trucks and stepladders, this does not represent a large share in their business. Most pallet racking and hand loaded shelving can be quite sizeable, up to £1m projects where they have to design all the equipment. These high priced jobs tend to swallow up the merchant product side.

Size of Workforce

The size of the UK workforce is in the range 500-2,000.

Increase in Sales 1973-1975 (Volume)

In spite of the great changes in the economy during the years 1973-75, the company's sales have increased in terms of volume.

Effect of the Performance of the British Economy on the Company in the last 3 years (1973-1975)

Like every other company in Britain, they would have liked to have seen the British economy in far better shape than it has been. They think that in their type of industry it would suit them much better if the wild cyclical swings could be softened, especially from the planning and production point of view, and the whole resource input of the company could therefore be better judged. Inflation is definitely a constant worry in as much as the company is constantly having to revise its pricing structures because of a very large number of increases in steel prices. They have to

adjust prices quickly as steel is such a high proportion of their manufacturing costs, so they would be in a much securer situation if they could judge what the steel price was going to be in six months' time. Inflation can lead to difficult situations, particularly in picking up larger project jobs abroad, in that they may be quoting now for a job that will not be supplied until twelve months hence, and they have to make an educated guess at steel prices, and the value of the pound as well, which makes it very difficult to come out on the right side of an overseas job. Regarding the help given to their exports by devaluation of the pound, when compared with the rate of inflation, they would argue that, for example, Dexion Overseas supplying to distributors had had its price increases more than offset by the devaluation of the pound. It would be their argument that their distributors are no worse off, but unfortunately there is the psychological impact of constantly having to change prices, and overseas distributors will remember the last price increase. It is very difficult to get it across that the pound is devaluing as fast, if not a little faster at times, as they are putting up their prices. They would like to see a situation where there was no need to devalue the pound.

<u>The Preparation the Company undertook to penetrate the EEC Markets in the Knowledge that the UK would join the Community</u>

The company looked at the situation, and their analysis was that they had been active in all these countries for many years, and so the only change they could clearly identify was the tariff saving, and for this reason they did not really change any policy. Tariff changes were so gradual that they were outweighed by exchange rate changes, that they were only able to maintain their margin or improve it a little. They <u>did</u> look at the possibility that there were some products which were perhaps going to be

be more competitive and which they should push a bit more.
At the time of the Referendum, the company did not pursue neutral attitude, it came down in favour of entry. It was made clear to the staff that their vote was a free vote, but they ought to know how it would affect the company. As they judged it, there was some tangible benefit of entry on the Customs side; there would also be intangible benefit because of the confidence factor and the lack of uncertainly which, it was hoped, would improve market conditions.
In the longer term, in Western Europe, they see their fastest growing market as being France. They have put a number of organisational reinforcements into their French organisation over the last year or two, and when finances permit they can see potential further investment both on the marketing and production side. This is by no means to belittle the things which they will do to maintain and try to strengthen their market position in the other countries as well.
Italy, which normally would be the fourth biggest market in the EEC, they have virtually written off as a market. It is a marginal market and if they can get business without significant investment they will do so, but they do not see it as significant for a whole host of reasons, including local business practice, general future outlook for the country, the price levels obtainable there, the predominantly local competition, and the fact that it has been a graveyard for British companies who have invested there in the past. There is at least one company in their industry that tried to set up production and, after a few years and a huge loss, it pulled out. There are other markets in Europe - Spain, for example, which is a very good potential market, but it is a very difficult one to get into. The company has always had a licensee in Spain and feels it is probably too late to change that; this market is therefore partly written off unless something radical

were to change, like the liberalisation of the investment policy of the Spanish Government against foreign companies. The company sees the big three markets as being Germany, France and the UK, in that order; they have certain market positions in each of these three countries. Benelux they would regard as the next biggest; in fact, even though it is lower down in the pure size league they see quite a good opportunity, strategically to improve things in Holland. However, they have an organisational dilemma there with a long standing distributor in Holland.
In the long term they think that probably they will have to have a sales company in Holland. There are other markets - Scandinavia, Austria, Switzerland - but they are all relatively small.

Factors affecting operations in the EEC market:
Factors such as the size of the local market, the form of local competition, legal requirements, and production costs would affect the company's dealing in the EEC rather than entry itself. They cannot see any easily identifiable advantages from being in the EEC. Obviously there have been benefits in terms of a greater acceptance by the overseas companies with which they work, but no particular economic benefits.
However, in the company's field of products there are certain technical standards, but there is no uniformity of these within the Common Market, so that in each case they have to deal with a national technical bureau who set standards. There is a Storage Equipment Manufacturers' Association in Britain laying down a series of technical standards for pallet racking, and these standards are not only different from those that prevail in America but also different from the French and German standards.
There has not been a rigid inforcement of standards, but they are tightening up the whole time, and to some extent the company

is looking at the design of its products as a group meeting a common standard, in order to gain acceptability in Europe. This does not mean to say that there is legislation preventing products not up to a certain standard from being allowed in; and there are unofficial standards which competition will quote, claiming that their own products meet these standards. Dexion are not in a position to quote these standards, which obviously puts them, to some extent, at a competitive disadvantage. They do not change their whole product range merely because they cannot meet the higher standards of countries in the EEC. They accept the fact that this is so, at least for the present, although they may meet those standards in the future.

These factors could be considered an obstacle to free trading by the company in the EEC market. On the other hand, theirs is a company with a large involvement in research and development in products and they consider that this should put them in a stronger position once they have met any standards. They think it is a historical legacy that, until the last couple of years, these standards have not generally been important, their importance is increasing. They think the standards in the States have been more rigid for some time. The company manufactures in France, Belgium and Germany, and was doing so prior to EEC entry. These plants report to the group managing director of Dexion-Comino International. In 1974 there was a development that has changed, and will change even more, the structure of Dexion. They were taken over by Interlake, an American steel group, Interlake already had representation in Europe, namely Belgium. Since then there has been discussion on the structure of the storage and materials handling side. Interlake's storage and materials handling operations are not a major proportion of their business, which is primary steel products and strapping, and they already had a company involved in storage and materials handling, in Belgium, called Readirack.

The current situation is that Dexion-Comino International has taken over the group role for the whole of Europe including Readitrack which now reports to their managing director in the UK. This has come about simply on the basis of being taken over by the American group, and not through the entry into the EEC.

In the main, with their type of product, there was only a small tariff into Europe - possibly around 7%. In any case, prior to entry into the EEC, those tariffs were on the way down resulting from the Kennedy Round, so European tariffs have never been a major issue. There are far more important issues such as devaluation of the pound, inflation, and the company's ability to meet production in the boom times, or rather to meet competitors' delivery times in countries like France and Germany. Certainly in the last eighteen months they have seen that it is essential that their delivery times are pretty short to get orders.

The need to build up marketing facilities in EEC countries following EEC membership

The company did not have any need for a rapid expansion of marketing facilities because they already had the basis there in Europe.

Effect of Higher EEC Standard on Performance of the Product and the Part Played by Research and Development

Research and development plays a very big part in their production. They are constantly looking at their existing products, improving the performance of those products, reducing costs on those products, and developing new products where they think there is a market for them. This research information is shared with their European companies. In the main they will launch a new product in the U.K. and then they will invite the other European companies

to have a look at the product; explain where they think it will fit into the market, its capabilities, and then work out what transfer prices they can offer. It is entirely up to the subsidiaries whether they feel that they can sell it at the price obtainable and whether they will take it up. The research and development function is a Group company at Hemel Hempstead, but they do look at specific problems for other countries if other countries come up with suggestions on the products that they are buying - perhaps suggesting a change in components. When asked whether they do research for other companies they replied that although they may have done so in the past they do not now.

Relationship between the UK Company and its European Subsidiaries prior to EEC entry, changes due to entry, and at present

The company does not think that entry made the slightest difference in their business; it changed the rates of duty by a small amount which was helpful but not critical, and in terms of relationships nothing was altered. In their particular situation what has to some extent altered their circumstances was a change of ownership. This has changed things basically in the reporting and financial control areas.

The relationship always has been, and still is, on the basis that the companies they have outside the UK are locally managed, usually by a local national. He reports, depending on the legal status of the company concerned, in Germany it is a GmbH, in France a Societe Anonyme, etc to their equivalent of a Board.

In effect he is reporting to the parent company, as represented by their managing director or chairman who is responsible for overseeing that particular company.

Taking Germany as an example, the German company is managed, and always has been by a local manager; he is responsible for running the company and accountable for his results to the chairman of the parent company, who for management purposes can be said to be on the board of the German company; although strictly speaking they do not have a board of directors. The control for tax purposes is not exercised within the UK; were instructions to be given these would come from the country of operation and not from the UK company. In theory, at any rate, the local manager would be free to make his own decisions in contradiction of what might be the wishes of the parent company, although in practice any local manager who kept doing that might find himself out of a job.

As an example, they have a subsidiary in Belgium which is responsible for the Benelux markets mainly, and there is quite a large project which is probably going to arise in Rotterdam for a major automobile company. It so happens that the client company has a purchasing office in Rotterdam and a planning and advisory office in the UK, and, therefore, as that is the way they are organised, the company finds that it gets queries from the man in this country about this project that is probably going to end up in Holland.

There is always a delicate balance between local and supranational interests. So with a group of companies which is operating in separate countries, both from the local manager's legal standpoint and the British tax law, the UK company cannot really give orders but has to try to influence the manager to do what it thinks is in the best interests of the group, in such a way that he is doing it because it is in his interest as well.

This has not changed - it was no different pre-1973, or in 1960 and will be no different in 1980. The company considers that the effect of EEC centry is on the level of creating - or not creating - a climate of investment confidence, and affects the value of purchases which the market is willing to make, and they as a supplier to markets benefit, or not, from that. But it is very hard to measure how much of that was due to entry, how much was due to changing economic circumstances', the OPEC price rise and other factors. In effect it is immeasurable.

They do not manufacture, by any means, all the products that they sell; the biggest, and most independent manufacturing plant would be the German one. France is very much dependent on importing products from the Hemel Hempstead factory; the Germans also import from Hemel Hempstead but to a lesser degree, and as does the Belgian company.

There is some harmonisation, but maybe not as much as they would like to see. In the group they are always striving to get more harmonisation in products, but it is very difficult to insist on the French or German factory taking a certain product from their range to sell. It may be a product that sells very well in the UK, but that does not necessarily mean that it will do in Germany. So the European companies have a fair degree of autonomy.

The company states that economies of scale have to be sacrificed in many instances; it is no good achieving the optimum level of production if ultimately they are unable to sell the goods in the markets. With a competitive situation, which during the past 12-18 months has been extremely tight, they cannot insist that the overseas companies take a certain quantity from the Hemel Hempstead factory to achieve benefits of scale.

The company considers that, in theory, it might be a good idea for each company to concentrate on production of the lines which it can produce best and most economically, and then for a sales

organisation to be set up to distribute the goods from one country to another for the marketing requirement. However, they pointed out that in their industry there are booms and slumps, which create a lot of difficulty in arranging the scale of production. For example, during the last 18 months their Hemel Hempstead factory would have welcomed greater throughput, in the form of a lot more production, from the other European companies, as they had spare capacity. However, the slump has been fairly general, striking in Germany, France and Belgium also, and so the European companies could not put business their way because they could not get the business themselves. Prior to 1973 they had boom conditions and a lot of response from overseas companies placing orders in Hemel Hempstead, and they had a severe problem in trying to meet that throughput; delivery dates grew longer.

Each of the companies in Belgium, Germany, and France, is a separate profit organisation, so that the Hemel Hempstead factory would hope to make a profit on the production that they sell, being a cost centre in their own right also with a need to make a profit. The UK company would not compete in, for example, the German market against their German affiliate company - all sales in their market are for them anyway. There is therefore harmonisation, in that the German company will either manufacture the Dexion products themselves, for sale in Germany, or will get them manufactured at Hemel Hempstead, and then transferred to the German sales organisation. The German company would not sell in the UK either. The Hemel Hempstead factory does not compete in the rest of the world markets; these are handled in the main by Dexion Overseas, which sells to the rest of the world via a network of distributors. For example, Sweden, Norway, the African countries, the Middle East, are handled by Dexion Overseas or distributors in those countries.

There are what they regard, and have regarded in the past, as the important industrial markets - France, Germany, Belgium, the States, and Australia where they have subsidiary companies, all of whom manufacture part of the range of their products and also import from Hemel Hempstead. The rest of the world, i.e. the smaller countries that on a sheer size basis do not warrant a subsidiary manufacturing company, have their sales handled by Dexion Overseas which will, for the most part, be produced at the Hemel Hempstead factory and then sold to distributors in thos countries.

In the one building at Hemel Hempstead there are three companies: Dexion-Comino International, which is the group holding company, the German and Belgian subsidiaries and Dexion Overseas, and Dexion UK.

The company considers that had Britain not joined the EEC, this would not have affected their marketing or sales functions or any of their policy in either the short or long term. They had the same selling and manufacturing structure prior to entry into the EEC. Being taken over by Interlake of America has had, and will have, more impact on their structure than EEC entry.

Extent of Harmonisation between parent and subsidiary companies

With regard to pricing policy, the company basically believes that what creates pricing policy is the market, and pricing levels may vary considerably even within one country. Although they might average a certain profit margin on any one of their products, say in the UK, this average results from a large number of transactions, some of which have been taken at higher prices, because a salesman was a better salesman than another, or they happened to provide a better service to that particular customer, or some other reason.

Also such things as quotas would come into it, as the bigger the transaction, generally the profit margin decreases. Then within their trade they have a range of products that are varying competitive with those of their rivals. With relation to the UK company, the prices they can obtain for their products in, say, Germany, are quite poor compared with prices obtained in the UK, or even in France. Belgium and Holland come somewhere between France and Germany; in Scandinavia, Sweden tends to be a somewhat higher priced country but Denmark and Norway have lower price levels, and it is hardly worth taking the trouble to compete. Switzerland tends to be nearer to the German price levels. So price levels in each market is a function of the amount of capacity available in the industry, the competitors they are up against, and how well they are equipped to produce. It is also a function of exchange differentials £100 worth of production today, would exchange for 450 DM today, but 1100 DM some time ago. This exchange is, in broad terms, supposed to reflect the different rates of inflation, and there is probably an industry somewhere that does reflect inflation accurately, but their industry does not. Taking some of their product lines which have production in Germany and in the UK, they are basically supplying German customers with German production but particularly where there has been a lot of over-capacity (and this has tended to bring prices down even in Germany during the last 12-18 months) they can offer as an alternative an imported equivalent from England, and this gives them a negotiating edge which some of their German competitors may not have. The competitors that they have may have the same nominal geographical coverage - many of them may be represented in most of the European or EEC countries, but quality can vary considerably. Some may, in a country where Dexion have a strong own sales organisation, perhaps be represented

by a smaller local distributor. The chief competitors they have in Britain are mainly British companies; these in Germany, are mainly German companies; and in France they are again adigenous companies. The business tends to have a large national predominance; this is not to say that, in Germany which is the biggest single market in Europe, and does not have imported French, Swedish, Belgian products, etc. , but the market leaders tend to be German producers and this is to some extent tied up with technical standards - generally German production costs are higher. The company's own production costs in Germany are higher than their production costs in this country. Standards set by different countries in the EEC that conflict with those in others, prevent harmonisation.

To summarise, the pricing is varied according to economic conditions and local competitive situations, there is no real attempt at harmonisation, they try to get whatever price, or range of prices, the combination of local circumstances permits, and to maximise their margins despite by trying to produce where it is cheapest and sell where they can get the best price. They can never completely optimise margins because to do that they might find that sometimes, in theory, they might have to close a factory down completely, and they cannot do that, so they try to get the best compromise possible.

Harmonisation of production is quite a problem, and possibly more of a problem for Dexion than it is for some other companies, because of their history. Going back to the fifties, the countries in which they set up companies of their own were, a manufacturing and sales company in Belgium, and what was initially only a sales company which for various reasons later branched out into manufacturing as well in Germany. At the same time they set up

a sales company in Austria. In France they had a licensee. Circumstances changed and Dexion's share in the Belgian company in 1965 or 1966 was sold to a local holding partner. He, a few years later, resold all of his company to an American competitor and, in 1974 this competitor acquired Dexion. After selling the manufacturing company in Belgium Dexion had set up their own new sales subsidiary company there, because they did not think they needed production in Belgium. Since they had production in Britain and in Germany, however, after the take-over they tried to merge their new selling company with the old company and create one organisation. In the meantime, their old company has started making a totally different product range because it had become a competitor. So they have a different product range now in those instances in which they have got an equivalent competitive item. Where they had a directly comparable, but different product, they had to decide whether to spend a lot of money on retooling. In practice in the short term they do not do this because it was not economic. In France, in the early fifties they only set up a licence agreement because they did not have the money to do otherwise, and France 20-25 years ago was a very risky country, people had no confidence before De Gaulle. Coming to the sixties, things were obviously changing and they eventually terminated the licence, paid out the licence fee and took over. There were two firms involved; one was producing and the other was selling. They terminated the production, came to a new distribution agreement with the other firm and eventually bought them out. They had some production of their own in complementary products which were not manufactured by the UK company. Closing the factory would not have made them very popular as owner; it was making very much money from its products and they had to decide whether to insist that it had identical product range. They did not do so, insofar so there is one product which they are making in France which they do not make anywhere else in the Group.

Germany, which is Dexion's third production location on the continent, started up in 1956 as an importing house for UK made products. Then they found that some of the products could not compete on price, so they had to start with a small factory making some of the simpler products there. And then gradually, due to people with different ideas about how to tackle the market, customers, regulations and specifications, competitive pressures and pressures on delivery to which they could respond better when they were manufacturing on the spot - what was a very small operation there for expediency, has grown into their second biggest European factory. It is a big plant, a lot of money is invested there; and it is making products which are broadly similar to those being made in the UK, but made to suit the local market. Neither the Government nor the Commission interferes in this, it is due to makret requirements and also competitive pressures. The German manufacturers in this industry decided that they were going to link up against the foreign makers of equivalent products which happened to be cheaper, and they did this by drawing up guidelines on their own initiative, and getting a seal of approval from the German standards office for these guidelines. Dexion are in a difficult position in that they are a German producer and also a German importer; their German company regards themselves more as a producer of German goods than as a reseller of British goods, so that they followed the tide of the German manufacturers in specification changes. The company thinks there is also some slight element of Government influence, in that Germany has been a leading country in safety legislation, which has affected their type of equipment used in warehouses where standards and safety factors have always tended to be stricter than in other countries. However the German legislation has become even stricter over the past few years.

There is a European federation of storage and materials handling equipment producers, to which the national association of each of the countries belongs. Each national association is composed

of the manufacturer members in each country. This federation (F.E.M.) has working parties which have been for some years now trying to come up with a European code of practice for the varying types of equipment including storage equipment. The company thinks this will go on for some years yet because there are vested interests in each part of the community. To take storage racks, were the Germans to agree to accept the less strict conditions applying to France or the UK, they would by doing that remove some of the hidden barrier protection which German producers currently enjoy. Similarly, if the British manufacturers were to accept the stricter - in their opinion too strict - conditions of the Germans, they would be making all their products more expensive, destroying their advantage in other markets.

Harmonisation in Decision-making, and Organisational Structure

The company has for a long time practised a rather free democratic type of organisation. In other words, each of these local companies has had, and still has, a large measure of freedom, with control being primarily financial. There will be financial guidelines which are set - the amount of funds which are allocated determine to some extent what people are free to do. But what they do within the general scope of this has been, to a large extent, left to local management. The company has central staff departments at Wembley Park; a marketing function, an engineering function on the production side. They feel that it ought to be possible to get better harmonisation if they were less free, but as a staff department they cannot do this but can only advise and persuade. Similarly, they can only advise and persuade upwards to the chairman or managing director of the group, and it is very rare indeed that the managing director or chairman would feel that he should be giving a direct order to one of the other companies at the local level. They consider that they are better at this than they

used to be because of out side forces, so they have a lot more interchange, but between equals.

They think that, as a result of the history of the company, total integration has not really happened and now they are trying to progress, fairly democratically, to what might be more efficient ways of organising their activities.

Explanation of the Competition Conditions between the Company and its associates

The company explained that the competition conditions between the affiliate companies and the UK company falls into two aspects: (a) local competition conditions; (b) allowing competition between themselves. When the company was asked to elaborate these points, their comment was that it was only in two specific instances, viz: the north of England company and the Belgian factory, had they found it expedient to continue some degree of internal competition. If they were asked again in three years' time they would probably have found some means of resolving this. Of course the vast majority of their competition is external, other British, French and German producers.

Coordination of the Decision-making, particularly if there is a conflict of the interests between the affiliate companies

Co-ordination starts from the top management. When they were acquired in late 1974 by Interlake, one of the first tasks which the Group Marketing Department took upon itself - because there were a number of markets where being acquired by a competitor meant obvious areas of friction - was to make an analysis and recommendations as to what should be done organisationally in the markets in question. The markets in which they had possible areas of friction were the UK, Benelux, France, and Germany. In Germany, for example, Dexion had a selling operation; the Belgian factory also had set up, on a much smaller scale, a selling operation in Germany. The Group Marketing Department suggested that the Belgian product should continue to be sold but

it should become the responsibility of the German company as a separate operation so having control over all the selling in Germany. The Group Marketing Department suggested apropos of Benelux, where Dexion had a company to sell British goods, that it was nonsense for so small a market to have two vehicles. The two should be merged and the most reasonable elements of the two product ranges should be put together, and the Belgian company be responsible for Benelux. In the UK market, where Dexion are the biggest in their industry, the factory which the Americans had set up, before they owned Dexion, was a small but irritating competitor. The Group Marketing Department said that it was nonsense to compete with themseoves and the sensible thing to do would be to merge these two organisations. However, because the Dexion organisation was by far the larger and more substantial one, the control should come under the Dexion side. That was rejected by the Chicago office because they had only a year or two recently made some heavy capital commitments to expand that business, and they felt they had moral obligations to the staff of that company, and that if an effective merger were to be allowed to take place and it was to be under the control of Dexion, their employees would to some extent feel betrayed. There would also be a risk that many of them would lose their jobs through redundancy. So they had to find ways of keeping the second smaller business going, and to make it profitable and successful in its own right. This is still a problem which has not been resolved, and the American company is still being run as a separate business and is having difficulties. The UK Group Marketing Department are clear as to what would be the sensible thing to do, but they have not yet persuaded the shareholders in America that it should be done.

In France, the Belgian factory had set up a certain amount of selling activity and had some agents. The Group Marketing Department decided that there was no reason not to sell the two product ranges but they recommended coordinating the selling under

one control, even if it is decided to do this through different outlets, so that the company, rather than the customers, benefit from it. Again, because of the commitment that they felt towards the Belgian management, the Americans did not like these proposals and decided that the Belgian management should go on competing with theFrench.

Britain entry into the EEC and the Company: Advantages, disadvantages and competition

Although the company has not obtained any positive advantages from entry, they say that, from a policy point of view, they were in favour of entry into the EEC, and the Board was certainly in favour. This was not because they could point to positive advantages, but they felt that they were in Europe, they wanted to build their business in Europe, and it was impossible to have known the situation had they not gone in. This could therefore be termed a psychological aspect only, because they feel it has helped their relationship with the management of the subsidiaries. They did not attempt at all to change the organisational structure because of the EEC, and have not done so since entry. The company cannot see positive disadvantages for themselves resulting from EEC entry. They have not found greater competition; the UK is their major market, but it is not the sort of industry that people can get into easily, and they have not found any major European competitors penetrating into Britain. They are the biggest supplier in the UK of most of the products they produce. There is one major competitor who almost matches their performance and also has a very high share of the market in the UK, and perhaps two other companies, although smaller, with a pretty high market share. They do not see, in the near future, a rush of other European companies coming into the UK and making sufficient impact to upset this market. They do not imply that between them these companies have carved up the

market or that there is a monopoly. The competition between the four or five companies is savage, and obviously more so when there is less business around, as in the last 18 months.

They would agree that just as they have not been affected by European competition since entry into the EEC, the European countries would not have been affected by Britain's entry, so far as penetration of other markets is concerned. They do not think that the UK entry into the EEC has meant that the company has marched into the rest of Europe and beaten the competition out of sight - their involvement in the rest of Europe has been a fairly steady build-up of business there.

Some of their products could be termed more of a capital product than others - for example, pallet racking. However, when one thinks of basic shelving this tends to be more of a consumable item. A great deal of pallet racking jobs are not just a case of supplying the materials, but of drawing up the warehouse layout and designing the pallet racking for that particular job. Other lines, like slotted angle, tend to be a replacement product or a supply-only product, but they can sell packages of slotted angle which even very small firms will buy for using themselves in putting up workbenches and suchlike. They have to attempt to differentiate this product more from the competitors' slotted angle. There is therefore a fairly heavy selling-on cost on the basic production costs.

There are definitely benefits associated with large scale production in this field. It is possible for a lot of very small firms to produce slotted angle quite easily, but they cannot produce the quantity - one needs a certain level of throughput in order to warrant the investment in flow line production. The Hemel Hempstead factory is very much a flow line operation, so that whilst one can enter the market in a fairly small way, there is a barrier in that one cannot successfully capture a large share of the market without fairly heavy investment.

Another View in the Company's Case, of Britain's Entry into the EEC

The company finds this question difficult to answer. Had the EEC entry not been followed so shortly by the OPEC price rise, which they feel set the European economies back several years, one could have envisaged a continuation of economic confidence which would have projected a much better growth rate for investment and spun off into a much better market potential for their type of products. It seems to them that whatever 'buyer confidence' might have been created by resolving the EEC situation, it was far outweighed by the oil situation, which has not worked its way out of the European economies even yet. Previously, the company's annual growth rate had been, 8-10% per annum. In 1975, they found that growth rates were minus, with 25% fallbacks in their market, at a time when, because of previous growth rates, more people had been investing in production. There was more capacity and a fall in demand.

The company found if very difficult to say how much worse the economic climate might have been if the UK had not joined the EEC and the OPEC price rise had still occurred. Possibly some of the investment in the UK has been made by other companies influenced by the membership of the EEC, for example American companies wishing to invest in Europe have found that because of linguistic and cultural considerations England is a better place than Holland or elsewhere.

Their equipment is partly correlated to industrial investment, but mainly to levels of industrial production and employment - the more that is made, the more that has to be handled and stored. Therefore if membership of the EEC brought production or investment to this country which might otherwise have gone elsewhere in Europe, then if the UK had not been in the EEC, the company's business might have suffered and the fall in

the market might have been even greater. On the other hand, since they are also very active in selling on the continent, they would have hoped to pick up some business there; but it would possibly have been not as great a share as they have now. Considering their market position, the share which they have of the market, is perhaps 25% or 30% of the equipment market in this country. In Germany, which is their next most successful market, although they are one of the leading companies they only have about a 10% share. Similarly in France they have no more than 8-10%, therefore, on this hypothesis they would not have picked up quite so much of the business available, related to new investment. It is a very difficult matter to try to quantify this, as who knows why people invest. The company does not keep statistics of their business in such a way that they could identify the growth of business due to new investment clients as opposed to that due to the expansion activities of existing clients.

Regarding the disadvantages to the Company, of Britain's entry into the EEC. The company does not see any major disadvantages at all. One possible disadvantage they could identify is that it made the British market in theory more accessible to continental competitors; since before the harmonisation the UK tariff levels were generally a few percentage points higher than the EEC external tariff.

Certainly during the last few years a number of continental producers have attempted to set up in the UK, but not with any great success. They consider that in the case of the UK, a good 90%, if not more, of the equipment in their industry must be British produced. In Germany the percentage for the market as a whole would be somewhat less - at a guess 75% or 80% German produced with rather more imports because of the strength of the German

mark. And in France, maybe 80-85% is home produced."
A whole host of things have an influence on importation; a combination of product specifications, historical activity in the market, market requirements, the service level in terms of advice, and also delivery, available capacity. In a period in which the tariffs have been being removed, the transport costs have been increasing.
Another thing which comes into it is raw material costs, because there is a fairly high raw material content in the products. This relates to the economic conditions rather than to the EEC as such. Steel is the most important raw material in Dexion's industry. The only harmonisation which occurs on steel prices through the community is usually at a time when it is a seller's market and all the steel mills are trying to push the prices up to the highest acceptable level. In a buyer's market they will sell their steel for what they can get, which is no different whether the country is in the EEC or not.

<u>The Benefits the Company obtained from the Trade Agreements/ between the EEC and the rest of the world (including the EEC Associated Countries)</u>

There have been quite strong geographic changes in the company's exports but these are for the most obvious things. The share in their exports which the Middle East has taken has gone up dramatically. The company has pursued a policy for many years now of trying to get some business from everywhere, and were quite well placed in the Middle East, with good contacts, salesmen on the spot, distributors and so on. Going back perhaps ten years, some of the African markets were good buyers, and are proportionally much less so today.
Some of them are party to agreements with the EEC, but that does not make them any better buyers for the company's equipment,

because they are still short of exchange and buy things higher on their priority lists. The major markets in Africa were British and French Commonwealth; the ex-French territories are relatively minor markets, Algeria being the main exception, but perhaps to be considered as belonging to the Middle East rather than to Africa. Algeria has been a very good market for the company.

To summarise the company view on that point, it has not changed any of their potentialities in the export market because they had been pursuing a policy of penetrating these markets before and they had a foothold there already. They had access to the ex-British Commonwealth anyway with a preferred tariff situation. The extra markets which in theory became preferential ones were mainly French and these, not only in Africa but also in the Pacific and the Caribbean were fairly small - they are not really major investment countries.

CASE STUDY No. 4

COMPANY: SKF (U.K.) Limited

LOCATION: Luton - Bedfordshire

CONTACT: P. C. Partos - Commercial Planning Manager

SKF (U.K.) LTD

Background

SKF is a Multinational Company with world wide sales. The main part of their business is Ball Bearings, but they also have interests in steel.

SKF is a Swedish Company. Their UK first factory was established about 1907. Their UK activities were then through a partly owned Public Company. Subsequently SKF bought up all the outside shares in the UK, to make it a fully owned subsidiary of the Swedish holding Company.

Operations in the EEC countries and in the rest of the world:

In the EEC countries, SKF has manufacturing plants in France, Germany, Holland and Italy. The Dutch facilities are part of the operation of the German company. They have manufacturing plants in South Africa and South America, and agents in every country of the world.

In the U.K., beside the Ball Bearings plant, they have other companies concerned with steel.

Main areas of marketing:

They cover the whole market in the U.K. A third of their sales go for export, and there is no country in the world they have not traded with.

Sales and marketing functions:

SKF has its own sales companies in many countries. In addition SKF uses agents, either those of their own group, or those agents they appoint, in Africa for example.

They also have companies who work only to sell their products by direct sales. These sales companies buy from them, stock for themselves, and sell to their own customers. In some cases, not very many, SKF export directly to the users, but that is not typical.

The sales and marketing functions are combined at the same level. The organisation of the company for these two functions starts with the commercial director, responsible for sales and marketing.

COMPETITION CONDITION:

In the U.K.: RHB is the largest local manufacturer. Other manufacturers include subsidiaries of American companies; there are small manufacturers, but not nearly as big as RBH.

Competition from outside the U.K. comes from Japan, Europe - East and West, and America. Because of this extensive competition no companies are operating to full capacity.

In the EEC countries, their main competitors apart from those in the UK, are SNR in France, FEG in Germany - the largest of their European competitors, and one or two others in Germany.

There are variations in the competition conditions in each of the EEC countries; for example, in Italy government legislation still does not allow Japanese companies to export to Italy, that is significant as the Japanese are SKFs' most recent competitors. With that exception, there is not much variation in the competition conditions in Europe - the market is very competitive.

Pricing Policy:

It has to be a competitive price, because of the competition being faced. Obviously they always keep in mind the costs, but price is very much a function of the market condition.

Growth of trade:

Their growth of trade in the last five years has not been satisfactory, following the performance of the British economy. Although they export something like a third of their sales, they are still very much dependant on their home market. As the U.K. economy has had such a bad performance, SKF are suffering.

Special features the company possess which give it advantages over Competitors:

SKF is in the lead when it comes to the technical side of the products; the design and the application to the engineering services are highly technologically orientated. It can be said that they have the most advanced products on the market. That is due to their long experience, and also to what they rate as their second competitive advantage, that they are the only manufacturer who make all types of bearings. So it is the very wide range of products, backed by their long experience in getting the right bearings in the right applications, that has given them advantages.

R & D:

R & D falls in two parts. As a group, they have their research centre in Holland operated by the five European manufacturers. The centre undertakes all the R & D projects on behalf of these five companies, the resources are therefore pooled, and participation is on behalf of all five European companies. The other side of R & D concerns the application activities, this is done at local level. In the U.K. they have a relatively small research laboratory, dealing just w ith engineering applications (testing and customer services) rather than the fundamental R & D projects done by the group R & D centre.

Capacity:

There is spare capacity in the industry as a whole, and SKF experience it. The extent of their spare capacity is difficult to define because it depends on what is being considered, the machine capacity, labour capacity, or both. In the current situation with the U.K. still in the recession the spare capacity is very high, around 20%, on the machinery side.

Profitability:

The profitability, relative to the sales volume, is not satisfactory. The price levels are in general too low. This has something to do with the competition, and means that insufficient turnover is provided for the manufacturers to create the cash flow needed to invest. It is not insufficient not only as far as this company is concerned, but as far as the product is concerned.

The modifications to the products to meet the market needs:

Bearings are a basic product. They have to allow the rotating of a housing, depending on the type of application, the loading characteristics, on the space limitations, and so on. There are a wide variety of designs available to meet all the possible requirements. These bearings ranging from a few mm diameter to, perhaps, three metres. Bearings have been developed to a high degree of excellence, in terms of material improvement is possible, but basically there is little that can be done to improve them.

The basic development effort is therefore moving out from making the bearing better, to the product in which it is housed. A lot of development work is being done on bearings of motor cars, creating units which area part of the suspension system. More work is taking place with the development of the electric motor, instead of simply putting a bearing at the end of the shaft of the electric motor, they are combining the bearing with the casing of the motor, to make it better and cheaper.

Brand Name

The Brand name has helped them a great deal. Around the world, and in the U.K., S.K.F. has been known for its bearings, for a long time, in terms of high quality.

Marketing other Products

They market the products of their sister companies, beside their own products. They do market, to a very limited extent, other products which either complete the range they sell, or are necessary to match it. An example for that is a housing which uses their bearings, they don't manufacture it, but they buy it, fix the bearing to it, and sell the completed unit.

The organisational structure of the European manufacturers

The Production rationalisation:

The Group has a system of rationalisation which started some years ago. It includes the rationalisation of production so that one type, and one size, of bearing is only made in one location. At one time the five companies made every size and type of bearing, the rationalisation programme will help to concentrate the volume so that better production facilities can be created through lines of production giving economies of scale. This is now well under the way, and means that these five companies are completely inter-dependent. Each roughly makes 20% of their own requirements, and buys the rest from the sister companies. To organise and administer this an operations centre has been established in Brussels, responsible for co-ordinating the production and shipment of bearings between these companies.

The Co-ordination in relation to the pricing policy:

There is co-ordination in the pricing policy, but not in terms of the external pricing. A transfer pricing system operates to shift production from one country to another. However, in external pricing there is no harmonisation.

The effect of the elementation of Tariffs on their trade in the E.E.C. countries

A. In general terms:

Obviously, the elimination of tariffs has helped, because even before the rationalisation programme, there had been a significant amount of inter-company trade within the EEC. So the reduction of tariffs has made that trade cheaper. That is the only significant thing in entering the EEC, as far as SKF are concerned, as they save on the transfer price about 10%, which was the duty due.
Exports go entirely to the ROW, so the elimination of tariffs didn't help there.

B. In comparison with their expectations:

In the primary survey, the company expected 5% - 10% increase in their sales to the EEC, due to the tariff elimination. However between 1974 and 1976, with the UK economy in recession and with the fall in world trade, it has been difficult for the company to assess if they achieved the expected increase of sales.

The devaluation of the pound sterling and its effects comparable with the elimination of tariffs:

It is difficult to quantify this, but it does help in making SKF's products cheaper for export. The devaluation came at a very difficult time, the inflation increasing costs and absorbing the effects of the devaluation, that is why it is difficult to quantify the effect of the devaluation.

Other advantages the company experienced due to the UK membership of the EEC.:

SKF has been a multinational company for some time, trading with Europe has been the usual thing. So it hasn't made that much difference. It helps when putting a case to the EEC Commission, they are able to partake in a European Approach to the EEC commission adding to the strength of their argument.

The obstacles the Company experienced due to the entry:

No obstacles, because the EEC rules of competition are not that dissimilar to those of the UK traditional legislation.

Competition:

Being a multinational the EEC entry became a question of whether it would increase competition in the U.K. Signs indicate that the increasing competition, from across the Channel, did not come from EEC competitors, but from Eastern Europe and Japan.
One specific effect, due to the EEC membership, is that it enabled the Japanese to set up manufacturing facilities in the EEC countries, and to trade freely within the EEC. A Japanese factory making bearings in Germany found it easier to trade in the UK, due to the EEC regulations, than to do so from plant in Japan. Imports from Japan are subject to a close scrutiny at an unofficial level. There are unspoken and unwritten ideas about quantities which should be imported from any EEC based factories, so the spirit of any agreement has been broken by the Common Market, and its rule of free trade.
There was competition from the EEC countries before entry, and this competition has not increased since the UK entry. What perhaps was an orderly situation before has however deteriorated, there are more countries involved and less capacity utilised.
The EEC allowed SKF's competitors to link up across the channel, and strengthen as a result; so in that sense entry did not help SKF, but it did help the competitors.
To summarize; the only negative effect for SKF is that allowing competitors freedom of operation in the U.K., certainly for the foreign subsiduaries in the EEC, like the Japanese and also the linking up of SKF's competitors between the U.K. and the European countries.

The share of the competitors in the U.K. Market:

In the U.K. the SKF hold about 20% of the market. The competitors, from the EEC, hold about the same, 20%. The penetration of the U.K. market by the European competitors was helped by the British entry to the Common Market.

The preparation the company undertook for Britain's entry to the Common market:

The company did look at the effect it would have on their market, and they concluded that it should affect it possitively. It should have given some imputus to the growth of the market, and they have taken that into account in making forward plans for investment. Specifically they looked very closely into the purchase of their material, because it was not clear how far that situation would be affected. It was not certain whether Sweden would join the EEC, and they buy much of their material from Sweden.

They also looked at the implication on administration, it did not involve any restructure of the organisation as they already had been trading through their sister companies, all the organisation needed was there. There is no doubt that entry into the EEC helped impetuous to rationalisation of productions between SKF and their sister companies. Their European associates in Germany, France, and Italy, had, before that a very small scale of rationalisation between them, excluding the UK. When the UK entered the EEC rationalisation was extended to include the UK factory. SKF could not say that if the UK had not entered the EEC this would not have taken place. It certainly affected the timing taking place quicker but it should happened a longer time before.

Other advantages from Britains entry to the EEC:

They see advantages in terms of the multinational companies they have as customers, Ford for example. Ford now find it possible to do the purchasing in more European bases, including purchases between Germany and the UK. This affected the multinational customer's purchasing policies, and in so far affected SKF, because Ford are well placed to negotiate at European level to get a supply agreement across the Continent.

The help the company received after Britain's entry into the EEC, in trading with the associated EEC countries, due to the special agreement the EEC has with them:

They are not sure, they stated that it may have done, but would be guesswork to specify it's effect.

Forms of economies of scale the company experience:

1. Longer production runs:

The rationalisation of the products between companies meant increases in production runs, where, in the past they had a small volume in batch production, they are now experiencing a larger volume, which enables them to reduce the labour cost and increase the investment. They have invested heavily in the past three years. So as soon as production facilities can be filled(due to the increased investment) it will allow them to reduce their production cost.

2. Ability to use larger plants at lower capital costs:

They experience that form of economies of scale.

3. More efficient machinery

They were having new facilities (investment in the machinery) which the past volume of production did not justify.

4. High productivity (output per man):

This they will have as soon as they can use the new capacity.

5. The best allocation of the factors of production:

The companies biggest problem, compared with overseas competitors, is the inefficient use of labour (perhaps it applies to a great sector of British industry). Labour productivity is too low. The most urgent thing needed is to do something about this problem, i.e. to make the best use of labour resources.
Also the overheads are too high, so they are just about to close one of the factories in the U.K. as it costs too much in terms of overheads. They buy material competitively, so there are no problems as far as the direct costs are concerned.

How the company expects its performance will be in the EEC market.

They are planning to increase the sales to the EEC market. This is now done, indirectly, through their associate companies, so their future is to link with their associate companies in the EEC.
The group of SKF is getting more and more integrated within Europe. The objective is to get more efficient by reducing costs and increasing sales volume. One of the objectives of the integration is to cut out any duplication of the operations in the group in production, system development, R & D, and other areas,, to benefit more from their own experience.
The object is to be more competitive, at the same time their marketing efforts are influenced by the situation. In the past they depended entirely on their resources, for example sales in Germany of the products they made in the U.K. depended entirely on their general company. They did not sell directly to customers in Germany but to their general associate company. As the sister companies get closer and closer, they are able to influence market decisions by being able to come to special agreement, on pricing they can do deals with their associate so he can do a special deal with his own customer. That is only possible by bringing together associate companies into the marketing decisions of each market.

The areas of cooperation between SKF company and its sister companies are wide and varied.

The Policy the Company adapts in approaching a new market:
They look at the size and the composition of the market, who will they compete against, what is the pricing structure, what is the distribution structure. (There are a number of ways in distributing bearings, not the physical distribution, but the selling channels.) Are there any technical requirements, what is the size range within which they should sell? After the understanding process of the market, they decide on the objectives; what do they want and how much do they want? What sort of profitability level is acceptable, what customers there are, what special promotions are needed (advertising, for example) depending on what the case may be (exhibitions, participation).
As the company deals in industrial marketing, as opposed to consumer marketing, their attitude is different, they do not create the market. It is a question of finding a market and standing against competition.

TOTAL EEC SALES (£000).

1973	1974	1975
200	650	3000

CASE STUDY No. 5

COMPANY: Worthington-Simpson Ltd.

LOCATION: NEWARK, NOTTS.

CONTACT: T.A. LAYNE - Marketing Manager

WORTHINGTON-SIMPSON LTD.

BACKGROUND

(a) Historical and General Background

Registered in 1886, James Simpson & Co. Ltd. was formed to carry on the business of pump manufacturers and engineering contractors. It traded from a factory built in 1859 at 101 Grosvenor Road, Pimlico, on the Embankment alongside the River Thames. The original buildings were demolished in 1936, to make room for the existing Pimlico Estate, and were still used by the firm up to this date, although new engineering works had been built at Newark-on-Trent in 1901.

Association of James Simpson & Co. with the Worthington Pump Corporation of America, in 1886, resulted in worldwide expansion of the British firm's activities, and the company became Worthington-Simpson Ltd. in 1917.

In 1969, with the problems of expansion looming on the horizon, Worthington-Simpson became fully integrated within the Studebaker Worthington Inc. organisation - a move which ultimately had the blessing of the government sponsored Industrial Reorganisation Corporation. There had always been the fullest exchange of technical information between the Worthington Corporation and the UK company. This aspect of the relationship was shown by the visit to Lowfield Works in 1967 of the European Engineering Conference which was attended by Worthington delegates from all over the globe. As part of this worldwide organisation, the future prospects for Worthington-Simpson look promising, both with regard to expansion in production and, with it, a larger share of existing markets and entry into other markets higherto untapped.

Studebaker-Worthington is a conglomerate covering many activities - refining, drilling, STP motor additives, turbines, compressors, etc. Worthington-Simpson are part of the Studebaker-Worthington organisation which is known as Worthington Pump Incorporated, a worldwide organisation operating in the Far East, Japan, with three

factories in South America, a factory in Canada, and several in the United States. They have a number of factories spread around Europe, and a company in the UK. Some six months after they became part of Studebaker-Worthington in 1971, 50% of the equity was sold to Weir Pumps in Scotland, so that they are 50-50 owned by Worthington Pump Inc. and Weir, but the management control of the company is in Worthington's hands.

Main Activities

They are the biggest manufacturer, in the UK, of standard industrial pumps, which is their main production at Newark. They are not the biggest manufacturer of pumps, in volume terms the big manufacturers are those who make domestic accelerator heating pumps possibly a million a year of very small, very standardised units. This company makes pumps for general industry. They also make a range of compressors, about 10% of their business; condensing equipment, between 5 and 10% of their business. In total they turn out about 20-25,000 units a year, processing approximately 30,000 enquiries a year and 10,000 orders to generate 20,000 + units, together with 30,000 spares orders a year.

Between 15% and 20% of their business is associated with commercial and naval marine (the Company is specialist in the design and manufacture of marine auxiliaries for all types of vessels). They make steam pumps - small and medium sized traditional split casing pumps; volume chemical and water pumps in cast iron and stainless steel for industrial and chemical use, and one or two other specialised ranges for particular markets or particular duties.

(b) The Products in detail

1. Pumps

The company produces a wide range of pumps as follows:

- Standard pump ranges for all purposes
- Split casing centrifugal pumps for application where dependability is required
- D-line (water and chemical pumps)
- Regenerative 'vortex' pumps for small boiler feed service

- D-line pumps for industrial and building service applications.

2. Air Compressors

The company design and manufacture a wide range of general purpose air compressors.

3. Machines

The company manufactures machines for specialised duties (such as steam and gas boosting). They also manufacture small capacity machines with non-lubricated cylinders.

4. Marine Auxiliaries

The company is a specialist in the design and manufacture of marine auxiliaries for all types of vessel.

Main Areas of Marketing

Approximately 35% of their business goes overseas directly and probably another 5-10% indirectly. Indirect sales are to buyers in the UK who will add the goods to a piece of equipment which then goes overseas; direct sales are for goods ordered which the company ships overseas. The company sells to 115 countries abroad. The volume areas that they have are the Far East, particularly Hong Kong and Malaysia, which takes between 7-12% of their total business. They sell approximately 11% to the Middle East, mainly Iran, Saudi Arabia, Iraq, the Lebanon - when times are better, and the Gulf States. Sales to Africa vary but the figure could be put at 5-6%, generally to the English-speaking States - South Africa, Kenya, Zambia, Nigeria and Ghana. There are limited sales to continental Europe depending on the product; that is the area where the biggest market is, but is also the mostdifficult, sales are around 4% - they have grown, but not as fast as the company would like.

The Americas is a limited market for the company, mainly because most of their American factories in that region have their own territory, with duplicate products in the main. There are occasionally jobs where, because of export credit financing, or because it is a

plant that is being sold from the UK and the customer has a particular preference for the package to be the same as in another country, they might sell into North or South America, but it tends to be limited.

Industrially, because they make such a wide variety of products they get into most industries. About 50% of their product goes to what could loosely be termed the mechanical engineering industry - this covers such operations as car plants, other pump manufacturers, bottle washing plants, and other original equipment manufacturers in a variety of industries. They put the company's products into their own equipment for sale as a package set. Chemical industry sales are 10-15%; marine sales 15-20%; the food and drink industry, particularly the distillery rather than the brewing industry, which includes a lot of chemical pumps to the whisky distillers, heating and ventilating, and building construction, are amongst industries where they make sales.

Main Competitors

The company's competitors do not compete with them in all the products they produce, because there is an overlapping of products between them. The UK pump industry is very large; there are 300 or 400 pump manufacturers. There are three or four big companies with whom the company competes to a limited extent; these are bigger companies, in volume, and are Weir Pumps, Mather & Platt, Alan Gwynnes and to some extent Sulzer (an offshoot of the Swiss firm). These companies are mainly involved in municipal water, sewage, power stations, etc. They are of the company's scale or bigger, but there is very little overlap with the company's products, and where the company has the product to compete, it can do so.

In the standard product field, the company has probably 20% of the business in this country. Their main competitors in this field are British Lebor, Seal Motor Construction, Mather & Platt, Rylands,

IngersollRand, and Crane. In the water field, for small to medium sized industrial pumps, they have the dominant share of the market - which amounts to probably 20% at the lower end of the scale, and 30% higher up. In this field they are competing with many companies, e.g. Ingersoll Rand, Cranes, Holden & Brooks, Ryland, Girdlestone, Hollands and dozens more.

In any industrialised country, a pump is a major item; as the country becomes industrialised pumps will come into use somewhere, even if it is just for supplying water to buildings for personnel showers and the water system: there is usually a use for pumps in most factories. So there are usually many manufacturers making pumps, or equipment, to move water. Some are sophisticated, some fairly primitive, and the price range, in the UK, is quite broad. There is a tendency throughout the world for people to standardise - to standardise the design to national or international standards, which means a commitment to certain dimensions, and shapes. There is still flexibility within the internal design of the pump to achieve a better performance, better efficiency, or lower power, so competition is in quality and price and not in technology of the use of the pumps, because one pump can easily replace another. The other aim is to reduce the inventory so that there is greater interchange of the internal parts as sizes alter; there could therefore be six sizes of pump all with the same shaft and bearing, etc. and with a big plant this could mean reduced inventory and reduced costs. Internationally, the company's immediate competitors are KSB in Germany. KSB is a multi-national company and are in most of the areas Worthington-Simpson compete in. KSB is usually in the top three in most countries, including Scandinavia, Austria, France, Spain, and Italy. The company is better priced than KSB, in the chemical pump field; they can take a chemical pump sell it outside the UK at higher prices than inside, and still compete easily. When

it comes to water pumps, or straightforward cast iron standardised pumps, the company has to bring the price down, even though the costs in getting it to the market and selling it are more, and they will struggle to compete. The further they get away from the industrialised nations, where there is less localised manufacture, the more factors tend to balance and they can obtain a better price. On the continent of Europe the prices tend to be closer than in the UK; there is more standardisation with relationships of 1:1.3 or 1:1.4, rather than 1:3 as in the UK. In Italy, generally with a less sophisticated level of pump, there is a low price market; France is a bit higher, Belgium and Holland a little higher still, with Scandinavia highest. Germany with, the high cost of living, and the largest volume user, is the lowest priced market in Europe, and the most difficult to break into. The Middle East is an open market, and much depends on the ability of the sales forces. Price and design are less important than contacts and method of operation - what palms are greased, and how good the intelligence system of the agent or operator is. In African under-developed countries many people import, and much depends on the price and the strength of the distributor. In South Africa there are tariff barriers to compete with, and an indigenous industry which is gradually being built up, buyers can generally take what they want locally. There manufacturers, importing a high technology product, have chances if their product is not being produced locally.

Pricing Policy

The company's pricing policy is determined in a number of ways. In any volume market that they are trying to establish for any new product, they analyse in depth the competition, their designs, features, and price levels, and they try, within the context of making a profit, to establish their pricing so that they can compete. There could therefore be a situation in which they take a newly developed product and establish one pricing system for the UK and a different price system in another part of the world. It may not just be a case

of moving it 10% down or 10% up; it could well be that one is 30% up, one is 5% higher, and so on. The factors are the major competitors, what penetration the major competitors have of the market. What the salesman would like is the lowest priced product with the best delivery and the best product design, to meet those demands the company would want 10% of the market. Talking of 1% of the market, which might well be the case, or even .01% of the market, the salesman could not expect that, and there should be some greater volume he can achieve at a price that is not necessarily at competitors levels. In the UK it is different, because the company has been an established manufacturer for a long time and have a large market share, so the price they obtain is not necessarily related to a competitive price. In the UK they would take the price at which they sell an existing product and the market share they have, compared with the competition and the price levels at which they operate, and determine the competitors' share of the market and their own profitability. If a salesman said he was being hit by Company X on pricing and was afraid of losing all his business, and they, themselves, had a £10m turnover and Company X had a £200,000 turnover, their own profit was £1m - and the competitor had made £5,000 last year, they would not worry about the loss of trade. The question would be whether X could compete and give the back-up service, part of the Worthington-Simpson profit has to go to financing sales offices round the country, having service engineers ready to go, and having large stocks of spare parts.

If a buyer wants a special product, the company tends to work on cost-plus. They establish a price and put a mark-up on it, making it a reasonably high one. In the same instance, if the volume is sufficient, they will consider whether they are looking for workload, or whether they could build up a market share in a product they have not made much of before, and they will take those prices and adjust them - generally downwards. Basically they try to establish a level of pricing which will be profitable to the company

and, even if times are bad, they will try to maintain that pricing with very little price adjustment. They do from time to time decide that any job over a certain value should be looked at, but will maintain the overall pricing level as high as possible so that the profitability stays up so they have money to continue investing, because for every recession there will be some sort of boom to follow. If a company is not careful, in the bad times it will take low profitability jobs, and will therefore have a factory full of low profitability jobs in boom times, and will not be able to cope.

Sales Administration

In the UK, the company is generally selling directly. They have eight branch offices around the UK - in Glasgow, Newcastle, Manchester, Leeds, Birmingham, Bristol, London, and Dublin, and in those areas they are handling direct sales. Outside those areas in the UK, for certain standardised products, they do appoint distributors or agents who work on a reduced price basis; they have a discount structure for types of customer. They tend to be distant customers - for instance down in Cornwall, further from Bristol than from Newark, so the company would have a compressor distributor in Cornwall, somebody handling small gear pumps, and so on. But generally the vast majority of business comes through their own directly controlled sales organisation.

Overseas the situation is different, in that they are part of an international organisation which has an independent sales force. Once a year they will get together and establish quotas for areas and products. The French area sales manager will, for example, accept a quota from the Newark, Hamburg and Milan factories, the Vienna factory and his own factory, maybe some from the States and Japan for the value of products, and his central sales organisation will be paid a figure of approcimately 8%. If a sales area takes a quota for a million dollars; they will receive 8% of that sum paid to them during the year at monthly, or quarterly intervals which is to finance the running of the operation, payment

of the salesmen, and other expenses, and this is monitored during the year.

In the UK operation the sales force reports to Newark, and their sales costs come out at, say, 6 or 7%, so they must build into the price for their own UK product a selling expense as part of the product price. All they are doing in the case of the overseas market is transferring that selling expense for payment to them. The problem then arises whether, if they do not achieve it, there will be some flexibility to increase the percentage, and for paying a reduced percentage for over-achievement. If the company is looking for business they will be quite happy about paying it, and maybe even paying the full amount. However if the company taking the quota is bringing in the wrong kind of business this is a problem, because the UK company having established a quota, and built it up from all the areas of the world, then plans the production. Whilst it is not so difficult if they get variations of products that they do not stock but can build to order, if they are building them to stock in volume, they could be making something which is filling their stores when they should be manufacturing something else.

In each of the European countries the company has sales forces which have quotas such as have been described; in Africa, the Middle and Far East they tend to be selling through distributors or agents, backed up by visiting salesmen.

Links between Sales and Marketing Functions

Sales and marketing are somewhat nebulous terms requiring exact definition to describe what they mean. The way they operate in the company's case, is that the marketing manager does not have responsibility for selling - his responsibility finishes at the Works gates. He has responsibility for application engineering, technical literature, price books and pricing, the profit, sales literature, advertising, market research, planning where and how the company should sell, and what new products they develop. The sales force in the UK have responsibility for selling, although there

is quite a lot of inter-phase for them to feed back information, and for this to be adjusted.

Overseas, the marketing department has responsibility to back up the local sales force, either technically or in commercial negotiations. The marketing manager has trips to the Middle East, or around Europe, to assist on big contracts. If the country concerned has a contract that needs rather more detail than they handle themselves, or some special expertise, then the UK marketing department would send somebody out to back up the local sales force.

Variations in competitive conditions in each area, in relation to industry and geography

The company considers that the variations are more industry based than territory based. For instance, in the case of the chemical industry, they have fairly sophisticated buying methods and standardise as much as possible, with very detailed technical instructions as to what standards they want to apply, and commercial conditions in terms of payment, extended credit, etc. This degree of standardisation brings problems, so that very often they will write a standard for a product which will result in a pump four times as costly as that needed. However as the standard stipulates it, it must be complied with, there must be performance testing, inspectors, and it costs a lot of money to have these things done. The marine industry is not so tight on technical conditions, although they have their designs, but they do not tend to write them out asspecifically. The marine field involves short period quoting for very high values of equipment and for very extended periods of manufacture. If there was a tanker business at the moment, not likely to happen again until 1980, somebody could quote for a multi-million pound tanker or series of tankers, in a matter of days, with each ship perhaps costing £20 million, and including all the sub-suppliers. If he is making a package series of ships he will

eventually want to decide on one manufacturer whose equipment he will put in every ship. There might then be a ship in nine months, one in fifteen months, and one in eighteen months, stretching out for three or four years, and very often requiring fixed prices. This means establishing estimation, working out when deliveries are going to be made, then work back to individual prices, add it all up and divide it to give a price for the ships. It is a high risk business.

Most companies prefer to pay after the job rather than during or before. There has been a general tightening up in cash flow; people pay later and now use any excuse they can to avoid paying for as long as possible. It has tightened the reins all round, and the company thinks this is not a good thing.

Territorially, the company does not generally have any particular problems. They do get involved, particularly in Eastern Europe on the very big projects, in providing finance, and they can usually manage to do this through ECGD or a line of credit with a bank. In Eastern Europe they sometimes get involved in barter trading, and generally have to go in with that built into their price on the assumption that that will happen. If it does not, then they might be able to use it in negotiating, but they have to be prepared to go in at a high price.

Rate of Growth of Trade from 1970-1975

In terms of current and not constant money, the approximate figures were £4-5 million in 1970 and £10 million in 1975.

In terms of production units the level has been up and down, depending in the past mainly on the UK economy. In 1970 they had perhaps 5-10% export whereas the figure is now approximately 30%. In the best year they have had around 25,000 units; in 1970 it was probably about 15,000-16,000, but it has been up to the 20000s in between - in 1974 it was approximately 25,000 and in 1975 approximately 20,000. The company's volume of units at 20,000 last year was mainly because of the very significant increase in

export trade. The company considers that 1975 was the worst year for British industry since the War. There was quite a lot of work going on in the UK, but a very large proportion of it was being done by people exporting who had never exported before - without that it would, in the company's opinion, have been disastrous. They have a large share of a market which fluctuates with very deep cycles and peaks in the UK economy.

Special Features of Advantage to the Company

The Company made its name in standard products by selling what they call Monoblock or close-coupled units. Instead of having a pump with a varying frame (the rotating shaft that runs in ball bearings), with a coupling and a second motor on a baseplate, the company's volume standard products involve taking the same pump end and connecting it straight onto the motor, with a modification to the motor. This means that it is more compact, there is not the problem of lining, there is no baseplate and no coupling. Approximately 85% of the standard products, which form about 60% of the total units, are close coupled rather than frame mounted with a coupling and baseplate. Nowhere in Europe there is any other company which can get the figure over 50%. This figure of 85% has been achieved through force of circumstances, the company's length of time in the market, etc., the main circumstance being the lack of motors availability just after the last World War. The company's managing director at that time cor cornered a very large portion of the motor availability, and put pump ends onto them. Other companies had to come to them for motors, whether they had intended using them in that form or not, and then found it was a good idea. The company has now developed a new range, which is in the process of taking over from the old. In the marine field the company has a patent on a stripping system for tankers, which tends to bring in other equipment with it, such as cargo pumps and hydraulic motors. They can offer a service of putting in a complete tanker stripping system - pumps, instru-

mentation control panels, pipework etc., or they can supply the equipment for the buyers to instal themselves.

In a particular type of condensing equipment for the polythene industries, the company makes a high quality, high value condensing product.

So far as general engineering is concerned, their heat exchangers are twice the price of anybody else's - but this is not their field. There is no monopolistic situation, but there is limited competition. Instead of having twenty competitors they are perhaps three. The nearest they come to a monopolistic position is that they have one type of compressor, where, although there are other competitors, there are only two around the same quality and price. So that they divide the UK transmission industry market into perhaps 60%-40% between them.

Level of Profitability

The company considers its profitability to be at a satisfactory level. The figure last year was approximately 11.2%. This is not ideal, but compared with mechanical engineering, where a lot of companies are not making 5%, including many companies in the pump industry (some of these are making less than 8% and very very few are making more than 10%) they feel it is satisfactory. They find that they are as good or better - and usually better - than anybody else in their group, and that includes in the whole world.

Ancillary and Auxiliary Products

The company tends to market products to go with its main products in the marine and condensing industries. In the condensing industry they have condensers, exhaust valves, ejectors, and the pumps, so they can provide all that is required for a condensing plant. In other fields - in pumping and compressors - they are buying ancillary equipment of a proprietary make to go with their own product, like motors, seals, instruments, valves etc. They do not have very much of anything complementary, and rather different, nature. They buy types or sizes of pumps from either their own

group, or from competitors, to make up a package of pumping equipment, but do not necessarily buy other equipment.

On the question of modification of their equipment, the company would like to sell as much standard equipment as possible, although again, the term 'standard' is somewhat nebulous. A large amount of their 'standard' products they have packaged and ready for shipment off the shelf. In a year in which they sell 20,000 units, 12,000 of those are what they would call their standard or semi-standard range. Probably 6,000 would go straight out of the factory in a packing case, with a certain size of motor and impellor, and either a packed gland or a mechanical seal, either the same day or within 48 hours of receiving the order. Then there are those types of pumps, in parts, they build up with minor modifications - perhaps a cup compellor (a smaller impellor), or with a bigger or smaller motor, different type of mechanical seal, a different material of the impellor, a different casing, different coloured paint, etc. etc. This is a second side to the business.

There is a third side to the business where they engineer. This may well involve components they have in stock, but a particular item needs designing, or costing, or it might be something that they design from scratch. They would do this particularly with the Admiralty where they would probably get a design contract. Sometimes a customer will ask for equipment to do a certain type of duty which they will not be able to provide, but they will then find that there is a design somewhere in the group. If the customer asks for, say, 30, they will take the drawings, calculate the price of the pattern equipment, ascertain the problems of jigs and tools, cost the job, and give a price. They did this in 1975 with some 54" pumps for Korea, for dry dock dewatering; this involved approximately £500,000 worth of equipment, three pumps. The company quoted in three days from a sketch, and had the order in three weeks. They

put in a price at another factory in the group which was told that it was UK finance, and that if they could make the equipment at that price they could have the order. If it looks like a profitable job, although risky, the company is prepared to do it. However, their volume production tends to be as standardised as they can get the customer to accept. The production department would like it to be more standardised, but they must make what the customer wants.

The Role of Research and Development in the Company

The company confirms that research and development plays an important part in their operations, particularly over the last few years. There was a period when R & D were doing very little, but the company has introduced one multi-million dollar development in the last three years, which is already generating around one third of their product numbers now, and replacing some of the old ones. They have one product development which is lined up and needs final approval.

Each year they put forward research and development projects; the company has a department at Newark, but has to get approval through a centralised process. An R & D marketing meeting is held each year altenately in the USA or Europe, and a week is spent going through everybody's plans, and at the end approval for a certain amount of money is given. There will be approval for somebody to do the development, even if it is a multiple request. When the development is finished there will be a request for different people, possibly, to manufacture; it may be a single, or worldwide, sourcing. Some new products are tied to the local currency or the local nationalistic situation, but more and more the company is trying to come to a situation in which, if they do develop a product in South America, Japan, or Europe, they will end up with the same product. The company does not undertake research for other firms but interchanges research information within the group; such information as computer

technology on design, noise and vibration, or testing that has been done in another part of the group which might affect one of Worthington-Simpson's products. The group, however, does get involved in research not entirely for itself; in Canada they have a joint Government research on sewer handling pumps and properties ofpolymers, rubbers for rubber lining, and wear resistance etc. The group also has a joint research agreement with the Russian Hydraulic Institute for the interchange of ideas and papers, but they do not engage in contractual research for anybody else.

The Company's Approach to a New Market

The company uses all the available tools at its disposal when approaching a new market. They find that being in the UK is of great assistance in establishing a market size, because the market intelligence information, which the Government's overseas branches produce for storage in the UK, is better than could be found in most places. The company finds that trade associations of the type that exist in the UK do not produce valuable information, if they want usable information out of it they have to go back to source data and calculate from this themselves. They find that even if the trade associations end up as secretariats for European organisations, they employ the wrong calibre of people to do the research, so that the information they provide is rather a hotch-potch which, in the company's experience, is generally not of use. The company keeps research libraries on designs, competition, the economic situation, and currency changes (this latter is one thing they would take into consideration when establishing pricing policies). The company uses what was the Morell Institute, and which is now a centre for economic forecasting, opened six years ago, and operating on a fee basis. They consider that an economist should be able to analyse the information better than the company can, and if they apply their specific knowledge (because very often the

centre's information is distorted, as the economic forecasting of the country is, and the reporting in the financial press), by taking that as a base, and applying their own local knowledge, they get good information. They use the centre also for their currency forecasting service. They also use services such as Extel, for competition and financial data, and a variety of sources to build up a library on competition for products that they make, or might possibly make in the future; also the banks for their financial data and various stockbrokers.

The company has a small research department for analysing statistics day to day for the industry as a whole and for the company itself.

Capacity Usage

At the moment the company has spare capacity; they are running on their target forecast for about 90%. They have probably nine months' work, and could do with more business depending on which product line is being considered. On some product lines they are up to capacity and on others they could certainly do with more. They have some flexibility in changing products from one production line to another, but the major lines have large volume production lines, both in the foundry and factory. In the volume lines they have capacity to have flexibility and increase volume fairly quickly; in some of the smaller lines one large order can throw them right out of gear. They have various bottlenecks and it will really depend on whether it is likely to be a short term bottleneck, or a long term growth, whether they will do anything about it. They have continued to invest quite large amounts of money over the last three years.

Relationship between UK and Associate Companies

As the company had stated earlier, they have a sales force that is generally independent of the factories. In countries where there is a factory it will have more significant responsibility for selling that

factory's products in its own territory, and then will have a second sales force, sometimes separate, for selling the other factory's products. The area sales force will have responsibility for several countries: Italy has responsibility for Iran, Greece, Libya and so on; Spain has responsibility for the Spanish African countries and for Portugal.

The factories are grouped in their reporting, in that Worthington-Simpson has a Vice President - Operations, Europe, over its general manager, and that vice president is responsible for the factories in the UK, Spain and Italy. There is another Vice President - Operations, who also happens to be general manager of the German factory in Hamburg, who has responsibility for Germany, Austria, and the factories in Vienna and France. Besides the countries mentioned in the questionnaire, the company also has a factory in Spain and one in Austria, and will by the end of 1976 have an additional factory in Italy - in Naples.

Once every month or two, all the general managers of the European factories meet together with the top management and discuss common problems. Every quarter all the sales and marketing managers meet at one centre and discuss quota achieved or problems, go through outstanding quotations, talk about marketing policy, exhibition policy, etc. This is usually a two day meeting: on one day the marketing people meet together and the sales people meet together, and then there is an overlap meeting where they discuss any common problems. Usually this ties up in time with the general managers, so that they come to part of the sales and marketing managers' meeting and then have their own separate meeting.

There are then corporate, worldwide meetings, held less often, where R & D, marketing, etc. from all over the world, are brought to one centre to meet; there is also an executive policy meeting which goes round the world and meets,

as an overall executive committee. There are Regional Vice-Presidents for North America, South America, Europe (including in this case Africa, Scandinavia, India etc.) and the Far East.

Features of Harmonisation in Production, Pricing Policy and Competition

On the production side, basically they tend to make different products, although there are some products they make in multiples. The UK is the biggest standard operation; Spain in its own market has a standard product range of equipment and its speciality is vertical turbine pumps for irrigation - they might sell an order of 1500 to Iraq. The German factory, in Hamburg, has expertise in marine pumps, particularly for the tanker market, and special chemical high pressure pumps for fertiliser carbonate pumps - a very narrow and specialised field and very costly. The Milan factory is almost entirely process industry oriented. They make high temperature, high pressure pumps for the chemical, petrochemical, and fertilisers industries, and big pumps for power stations, etc. They recently had a $10 million order for Russia for a series of pumps, and at the end of 1975 they had an order for all the pumps for a refinery. The factory in France, at Nantes, has not been going long; it was a Crusette Loire factory making pumps and had, at some time pre-War, been a Worthington factory. It then became a factory sub-licensing an American process pump; the licence lapsed and Crusette Loire sold it to Worthington. If somebody asks for process pumps from them, they will make process pumps. If there is an enquiry to France for local manufacture and they do not have the products, they will obtain the drawings or patterns from one of the factories that make them. It is a jobbing factory, and is still feeling its way. There is not a great deal of duplication in products between the company's factories in different countries. When there

was a good tanker market the UK factory was in competition with the Hamburg factory. However, it generally worked out quite well - either the deliveries, or the prices were different, or the owner had a preference for a German or a British pump, or the shipyard had a preference, or the financing tended to push it one way, or one factory was overloaded and the other was not. It is up to the salesman to establish what is best to be done. There is very often a conflict and the salesman tries to play one factory off against another on price or delivery; very occasionally the group top management will try to push an order into a particular factory because it is under-loaded, but that is fairly rare.

Effect of Britain's Entry into the EEC on the Company's Business

In the original questionnaire the company stated that it thought the effect of EEC entry would be favourable to their trade, they now confirm that they have done more business. It has caused a situation where the EEC countries now accept British products and think that this country means business more than before. Britain still, as a nation, has a very poor reputation for delivery; a good reputation for doing business and being good people to do business with; a reasonable reputation for price; a good regpu reputation for the quality of the product; but the question of delivery is very often a barrier to doing business, together with the fact that Britain has a too voluble press. The company's marketing executives find, when meeting people in the EEC countries and talking to their opposite numbers, that the papers do not represent a true situation. In the last two years the UK company's situation on pricing has been better than that of any other country that they deal with in their group. The other countries' inflation has been at least as much as that of the UK, if not marginally above, and their prices are almost the same. Their companies in these countries are saying that business is harder to get for them at the moment than the UK company finds.

Entry into the EEC has not opened the floodgates; all it has done, in the company's view, is to create a situation which exposes to people that there is a large market to go for. It has made UK companies more professional than they have been in the past. If they want to sell in that market they must have as good, or better, product than anybody else in Europe, because having their own market, why should they buy from the UK? It has to be the right price and the right delivery, and a UK company has to be better at what they are doing than the foreign companies are themselves.

The company has found these conditions applicable to itself, in particular, and they also find that they must provide themselves with the right sort of salesmen and distributors, and give them the right sort of service. All these things give a company some sort of potential; failing on any of them means they will not be getting an increase in sales, and they will also be faced, in their home market, with increased competition from Europe.

Improvements in Distribution Methods and Service consequent upon Entry into the EEC

The company analysed the market in much more detail than before, to forecast what they should be producing, what combinations they should be making, and the variants that the European market requires. For instance, Europe generally requires a different voltage of motor, and therefore the company introduced stocking of certain combinations for that market to be drawn off from the UK. Some of these motors will be drawn off by their UK salesmen selling them to firms to put into equipment being sent to Europe. This stocking reduces lead times, and the company has put some stock into two or three distribution centres in Europe, again to reduce the lead times. They trained people to understand their products, and have produced multi-language bulletins covering about eight languages. They have set up an exhibition vehicle

which they put on the road for about six months of the year, of which about 3-4 months would be spent on the continent. At the time of the interview the vehicle was in France and would spend the following 6-8 weeks going through France, going to Italy, and coming back through Germany, to the UK. They assist distributors with the preparation of direct mail campaigns in their own language with additional literature. They check on pricing at regular intervals to establish whether they are offering the right price, or whether it is too low or too high, particularly to make sure it is not too low with the current state of the pound.

Changes in Production Methods following EEC Entry

The company has production lines for its volume products, both in the foundry and in the assembly shops, and they are continually streamlining and modernising these. In order to meet the requirements of the EEC market they have extended their production lines; they made fairly major changes, not entirely because of the EEC. They have made them larger, more complex, and more expensive, than they would have done if they had been catering only for the UK market.

Regarding the products themselves, a major change came about because of the EEC and metrication. The company has taken its basic standard ranges (e.g. British Standard flanges, although they were not really standarised beyond that) and the complete range was built to metric standards for the international market, specifically for the European market, which meant that there was a phase-out period in the UK of the British Standard. They are continuing to make their old products, but the products they make now are more suited to the EEC than they are to the EEC than they are to the UK market.

Benefits following Tariff Reduction

In answering the original questionnaire, the company stated that it expected benefits following tariff reduction to amount to an

increase of 25% in their business. They now state that their business in the EEC has doubled in the past three years since EEC entry, but that the contribution of tariff reduction to this increase would be extremely difficult to isolate as a factor. Inflation rate has been so enormous that whatever had happened with the tariff, it would have had to have been very large in the first place to have had any effect. In the company's case the tariff was only 4% or 5%, in some cases higher depending on the product. Had inflation stayed at a fairly low level, reduction of tariffs would have been significant; to take 1975 with its extremely high inflation rate and deflation of the pound, the price advantage would only have been 1-2%, as the net effect, in Europe. The company is doing significant business in the EEC and does not think that it would have done quite so well if Britain had not entered. There has been a tendency for the EEC countries to take them more seriously, and to see Britain as possibly responsible suppliers since entry. Had Britain stayed out the company thinks that there might have been a certain amount of backlash reaction. They still consider it a very expensive market to get into; the rewards after several years would be great, but it means spending more than expected. They feel they would probably have done a lot better, in the short term, if they had put their efforts in the last three years into the Middle and Far East; they would have spent a lot less money, and they would have got a greater return. Over the period in question they have doubled their business with the Middle East every year, so they are now doing eight times what they were doing before; with the Far East they have doubled their business, with much less effort. This has been the pattern of growth within the company, but they have expended the money within the EEC with a long term view.

Effect on the Company's Anticipated Volume of Trade Had Britain not Entered the EEC

The company would have expected its volume of trade to have been

lower, had Britain not entered the EEC.

Comparison of Devaluation of the Pound with Effect of Other Factors

The company considers that devaluation of the pound has affected it significantly, and much more so than elimination of the tariffs, because it led a major fall-off - an average of at least 15% in the last year with most of the countries they are trading with, and this has compensated for the high inflation rate.

Increase in Competition from European firms in the UK Market

The company replied in the original questionnaire that they did expect an lincrease in competition from firms entering the UK. They now say that the share of the market held by European competitors has increased; the market is larger, but the company's own market is reduced. There are many more European firms now in the UK market, and those here have gradually increased their business, they had all started from a low point. There were not many EEC people in this country prior to Britain's entry, now there are a number of new competitors all with a very small share. The company considers that probably the major factor in tempting the EEC firms to come to the UK has been the low labour rate. The European firms came to the UK to invest; Grunfoss, the Danish firm, moved a very large part of their business over here because of the problems they were having in their own country. The company has met this competition partly by adjusting prices, and partly by accepting the situation. Whilst the company does not have the option of all business, and the small newcomers gaina certain number of customers and give them good service, it is easier for these small firms to give this service than for a larger operation, and outside firms come in at low prices to corner the market. None of them are doing very well, except for one or two specialised people.

Changes in Marketing Method to take account of new area created by EEC entry

The main changes the company adopted related to revision of their

method for putting technical information together, using multi-lingual literature, and the exhibition vehicle, some overseas exhibiting, additional training, more flexibility in pricing, more market research into what really is the state of the market, etc.

New Product to Satisfy EEC Market

In the original questionnaire, the company had said that it would not be able to sell the same kind of product in the extended market, and that it intended to meet the new conditions with a completely new product. The company now confirmed that it carried out this intention, and whilst being unable to separate for the purposes of the interview, EEC and UK effects, as a fairly generalised remark they said that in their export business with the standard range they had before, they sold 8% overseas. With the new range, which is now over half of the business they were doing before, they are selling over 50% of it for export.

Direct Investment in EEC Countries

In 1974 the company had said that it had no intention to make direct investment in EEC countries; it now confirmed that it had not done so, and that this answer related to its intentions as a factory. The group has made investments.

Economies of Scale

The company had expected to benefit from economies of scale and now confirm that they have already experienced benefits in this direction. It has, for instance, enabled them to buy numerically controlled machines where they would have used less sophisticated machines. They planned to obtain such machines on the expectation of an increase in volume, and have actually got the volume that was needed to utilise them. They decided to go for a larger share of the market and estimated that a certain volume at a certain price would allow them to go for a sophisticated piece of machinery. Had they halved the volume they would probably have had to ask for less in the way of machinery. The company has to submit very detailed planning for anything it want to do, and has to justify the return

over five years, so if they were to ask for something sophisticated for a low return they would not get it, and would be told to cut down their capital cost to improve return. In this case they have been able to justify it.

They confirm that they have experienced the anticipated longer production runs, attributable to increased volume, sales, and exports. A great deal of their product is price orientated on volume, rather than its content: to make an item in fives is cheaper than making it in ones.

They have also experienced the anticipated advantages related to bulk buying. They buy motors, castings, and other items in bulk. Because of the increased volume they are able to bring greater pressure to bear on their suppliers to get them to hold prices down, or give them lower increases, than they might give to somebody else.

They have experienced the benefits of greater specialisation of labour with more skills and have got rid of a lot of older machines, and perhaps have fewer people using more sophisticated machines, achieving greater productivity.

They had expected to be able to achieve technical economies by linking together processes in one production unit, and now confirm that this is an on-going process. They are investigating in-depth group technology at the moment, but that is fairly new. They have already streamlined the operations and made them more flow-line. They are now looking at a major extension of this and talking about group technology, which means doing all of a certain type of process in one area, so that where something has been made with one operation one week, and another operation another, this is changed to a continuing flow of one day, one hour, etc. through the machine tools.

The company has experienced improved levels of output per man (production ratio). They attribute this to different production methods and streamlining, getting rid of some old products and inefficient methods of operation, and other factors, together with the use of more sophisticated machines.

The company had expected to benefit from the best allocation and use of the factors of production, and confirm that they have done more production planning, employed computers more in production control, looked at more detailed assessments of where stocking levels should be and how they should be adjusted, looked at supply methods and questioned whether suppliers were holding stock rather than themselves, and also examined the labour side. They have looked at each factor of production and tried to improve it.

Attracting and Employing Managerial Skills

The company states that whilst there has been a change in this area, the change is more related to their being part of an international group and obtaining the advantages of the knowledge of new methods of management, new styles, the more dynamic American approach, seeing what happens in various European countries, and modifying their own worst features adopting the best of the new ones.

Obstacles to Entry

The company considers the many European languages to be an obstacle, making it difficult to put a technical subject across. Nationalistic feeling is also a barrier. Another is relating the high cost of employing overseas people to the salary levels in the UK, and therefore getting the right people.
Legislation has not really created a problem; the only time it does is when a deposit scheme is imposed. The Italians did this some time ago and have just done so again, it means that importers have to deposit 50% of the value of imported products, creating a temporary restriction. Some of the paperwork is a problem.

The Company's View of the Future in the EEC

The company sees itself doing a lot more business and does not consider that it has really made the major breakthrough, which it feels will not be easy and will take another five years. They feel that it is not easy to make such a breakthrough in Europe unless

one is selling sophisticated technical products, but for a company selling something that the European countries can make and supply easily themselves, it will be a long, hard struggle - but they feel it is going to be worth it. It is the only way to get volume up significantly in terms of units, profitability, and turnover. They cannot afford to write off the EEC and hope to succeed in the Middle East, or the Far East, because that market could just go the other way. They need a baseload in industrialised, developed countries.

Assessment of the questions in the elementary questionnaire:
When the company was assessed on the answers it gave to the elementary questionnaire in 1974, it indicated that all answers are very much as originally indicated apart from the following:
In 1974 when the company was asked about it's expectation of the increase in it's sales volume due to the gradual elimination of tariffs, it indicated that it expected an increase of over 25%

In 1976 when the company was assessed for clarification and conclusions, it indicated regarding that point:

"They doubt if the effect of the tariff reduction has increased sales volume by more than 5-10%, it may have been less than that. A much more significant effect has been the devaluation of the £", and therefore their answer to the question of the effect of the floating of the £ on their trade with the EEC countries, in the elementary questionnaire, would be changed to "The floating of the £ probably significantly affected their trade in counter-inflation terms rather than marginally affecting it as they stated before."

Advantages to the company of Britain's membership of the EEC:
As they see it, it gives them a credibility with their customers in Europe. They would have had it, to a lesser extent, if they had

not participated. Although Europeans are very nationalistic, they also have developed a pro-European bias, so being a member helps.

The disadvantages to the company of Britain's access to the Common Market:

The company does not see any significant disadvantages of Britain being a member of the EEC, in her (the Company) case.

Plans the company made before the UK entry to penetrate the EEC market:

The company indicates that these were significant in that they produced redesigned product ranges suitable for the market, produced literature in multiple languages, researched the market in depth, produced a mobile exhibition vehicle for touring overseas markets, and increased their number of visits to the markets and the number of discussion meetings with their overseas personnel, and agents, to define the right approach.

In addition, three local warehouses, and services, were set up in France, Germany and Italy. Additional distributors were also located and activated.

Barriers to penetrate the EEC Market:

The company explained that their major barrier is that the majority of their products are produced in the local market and, with low priced standardised products of this type, it is difficult to sell in volume, and profitability, in the well developed countries. Where they have offered more sophisticated products, this problem tends to disappear. It is likely that some joint venture arrangements will have to be made to improve this situation.

Need to change standards to meet the requirement of the EEC Market:

The company sees that the standardisation, world wide, of metric measurements caused them to produce product ranges suitable for world wide and European use. They added that they would probably have had to do this irrespective of Britain's entry to the EEC. At present, legislation within the EEC is not at a significant level to affect their entry into the EEC market. They feel there is a

long way to go in further standardisation. A particular point may be standardisation of health and safety at work, and noise, regulations.

Need to build up marketing facilities in the EEC:

The only effect of this has been to cause restructuring of the company's overseas selling organisation. They have, however, had to intensify their back-up marketing to overseas territories, and particularly the EEC.

Restructuring of organisation:

The company's need to restructure their organisation after Britain's entry to the EEC has been done to a limited extent. They would feel that the basic structure they introduced some three years ago, before joining the EEC, indicated by an international organisation intending to sell a significantly high number of products overseas, would need only marginal changes after entry.

Benefits the company obtained from the EEC special terms of trade with other countries in the ROW:

The company has difficulty in differentiating between these benefits and those of having associated companies in the local market place.

Effect of the performance of the British economy 1973-1975 on the company's exports to the EEC:

I quote the executive I interviewed regarding that point:
"I would say these have been significant, in that in 1975 and early 1976 when the use of industrial products in the U.K. was at its lowest level since the last war, most companies have gone looking for export business, most particularly in the Middle East, but also to a large extent in the EEC, to maintain their factory production."
The effect of the devaluation of the £ was significant as the company indicated before, and they added that it is" probably the

only reason why we have been able to improve the situation despite the quite considerable inflation in capital goods products."

How the company sees its future in the EEC Market:

The Company stated that they are in the Common Market to stay, irrespective of Britain's future participation. They added that as far as their products are concerned, it is an extremely difficult market to break into, and they must try some different methods to further their penetration into the market.

CASE STUDY No. 6

COMPANY: Mars Ltd.

LOCATION: Slough

CONTACT: Mr. COLIN NUTTALL
Secretary to Board of Management

Mars Confectionary Division of MARS LIMITED

BACKGROUND

(a) The Company

Mars Limited was founded as a private company in 1932 by Forrest E Mars who came to England in that year, from the USA, where his father had established a flourishing confectionary business.

He started in a small way in Slough, and gradually expanded, basing his initial marketing effort on the Mars Bar, which was followed by Maltesers and Milky Way.

During the war the business was carried on, and production maintained, largely for the Armed Forces. The end of the war gave the signal for the rapid expansion and growth of Mars Ltd., which was further accelerated by the derationing of confectionery, the abolition of retail price maintenance, and the fact that the British consume more confectionery per head than any other nation.

They have now grown to become the third largest confectionary manufacturers in the United Kingdom.

They believe it is the people in their organisation who, through prediction and reaction to their changing market situation, have ensured the achievement of their growth target, which is set at a minimum of 10% per annum.

(b) The Group

Since 1946 their other business interests have developed rapidly and Mars Limited is now part of an international group of companies, the parent Company of which is Mars Incorporated. Their associated Companies include:

(b) (i) Confectionery

U.S.A.	U.K.	EUROPE
M & M/Mars Hacketts town Chicago and Elizabethtown	Mars Confectionery Slough	Mars Chocolade Fabriek B.V. Veghel, Holland

(b) (ii) Pet Industry

U.S.A.	U.K.	Europe	Australia
KAL KAN FOODS INC. Los Angeles	PEDIGREE Petfoods Ltd. Melton Mowbray.	EFFEM GmbH Verden, Germany.	Uncle Ben's of Australia Pty., Ltd.
PUPPY PALACE ENTERPRISES INC. (Pedigree Dogs) Philadelphia	THOMAS'S LTD. Halifax.	UNISABI S.A. Strasbourg, France.	

(b) (iii) Other Activities

U.S.A.	U.K.	Australia
UNCLE BEN'S INC. (Rice Products) Houston, Texas.	FOUR SQUARE CATERING AND VENDING (Industrial Catering and Vending) Slough.	MASTER FOODS OF AUSTRALIA PTY. LTD. (Grocery Products) Matraville, Sydney.
M & M/MARS (Peanut Processing Division) Albany, Georgia	DORNAY FOODS (Grocery Products) King's Lynn MARS MONEY SYSTEMS (Electronic Coin Mechanisms) Slouth.	

(c) The Products

From the 1930s their range of products has been greatly extended and now includes: Mars, Bounty, Milky Way, Galaxy, Maltesers, Treets, Topic, Twix , T Bar, Spangles, Opals, Tunes, Revels, Ripple, Counters, Glees and Marathon.

(d) Mars Organisational Structure

Mars is in five divisions:

Manufacturing and Engineering: responsible for the manufacture of the products, and the development, and maintenance, of plant on which they are made.

Marketing: responsible for all sales activities, with special reference to display and product availability.

Finance and Information: responsible for financial controls, planning, payroll, organisation, and methods.

Administration and Personnel: responsible for all personnel activities, such as recruitment and training.

Supplies: responsible for all purchases, including raw materials, packaging and machinery.

(e) Historical Background

An American, Forrest Mars, came to the UK from the United States, where his father was already a manufacturer of confectionery, and, with a limited amount of capital, established the company at Slough, with the original Mars bar named after himself, and developed the whole operation from there. He was very successful with the development of the Mars bar, and the earlier products, like Milky Way, and managed to maintain the business successfully throughout the War period. Having a firm foundation in the confectionery business, he diversified into other

areas, particularly petfood, and was able to establish from scratch a very successful petfood operation in Slough. This has now transferred to Melton Mowbray, and acts as an autonomous unit within the group. So he split the business into these two main arms - confectionery on one hand and petfoods on the other. His operational style and methods have been so successful that Mars is now an international corporation, with major manufacturing units in continental Europe, the UK, USA and Australia. The international turnover is in excess of $1\frac{1}{2}$ billion dollars and it is still a privately owned company, one of the largest in the world. The international headquarters was transferred to the United States, which is the home area. The man who founded the business, Forrest Mars Sr., has now retired and has handed over the business to his two sons and his son-in-law; between them they run the whole international business.

The Group Manufacturing Units in Detail

The number of productive units:- in the UK there are productive units for confectionery, petfood products, and pet accessory products; there is a vending subsidiary called Vendapac, an industrial catering subsidiary called Four Square, and a potato products processing company called Dorlay Foods, at Kings Lynn. There are confectionery units in continental Europe:- in Holland, and in France; there is no manufacture in Germany. There is confectionery manufacturing in the United States. There is no confectionery manufactured elsewhere in the world. Petfood is manufactured in Germany, France, UK, Australia and the States. There is rice manufacturing in the United States and Germany; pet accessory manufacture in the UK and the United States. There is a small electronics venture, in what is called, money systems; basically coin counting devices; of which there are very small manufacturing

units in the States and the UK. There is a delicatessen manufacturing operation in Australia. Potato products processing is done solely in the UK.

Mars' Affiliated Companies' Relationship; and the Relationship between the Affiliated Companies and the Group.

The Mars Group has a very small international staff which lays down a number of policy guidelines, particularly financial criteria; Then within each country the operating units have a high degree of autonomy and responsibility within their own areas. In visiting the Mars Groups one would be able to see a very great similarity of style of operation between the groups, in its management characteristics, the use of open plan offices, and the equality of treatment of staff in the facilities and benefits which they enjoy. The only distinguishing characteristic between the staff is the amount they get paid; everything else is similar - they all clock in and clock out; including the managing directors; there is a common canteen, common toilet facilities, the same number of weeks' holiday per year. In all these respects there is a very strong egalitarian style of management.

The Relationship between the UK Company and its Affiliates in the EEC Countries.

If we take, for example, a comparison between Mars UK, Veghel, their Dutch confectionery manufacturing unit, and the French confectionery manufacturing unit. The French and Dutch manufacturing units operate very much more closely together than the UK does with either of them, because they serve common markets. In other words, there is a set of countries which the two continental factories supply, and the UK has a quite separate set of countries which is supplied with confectionery. The UK has an export responsibility outside the EEC - there are marketing units in practically every major Western and Asiatic country.

The Effect of Britain's Entry into the EEC on the Relationship between the Affiliated Companies in the EEC Countries

There have been virtually no changes, except in terms of the countries which are supplied.

There has been a very low impact in terms of harmonisation, because different countries are served and slightly different products are manufactured. There is no harmonised range of products; what harmonisation there is has largely been brought about by the heavy branding of lines, and the fact that successful confectionery products in one country can usually be made successful in another. As the UK was the original confectionery unit the Dutch company has tended to take successful products from the UK and make similar products in continental Europe, so the actual brands are common. Continental Europe has not yet as wide a range of products as the UK, because they are a newer unit; but the difficulties of providing wrappers with all the different languages, and so on, means that there cannot be complete harmonisation. There are subtle differences in people's tastes between one country and another, which they try to satisfy to some extent. More harmonisation is being brought about by the EEC rules, the directives, introducing harmonisation into things like packaging design, and information that is conveyed to the consumers.

It has become slightly easier to transfer products from the UK to Holland, and vice versa, because of the breakdown of the tariff barrier. That is an important factor and means that, for example, when the UK company runs into situations of capacity shortage, they are able to take some from Holland, but it is still a relatively low scale of activity.

The Effects of the Elimination of Tariffs on the Company's Trade

This has had to date a relatively small impact, as all it has enabled Mars to do is satisfy demand at times when they would not have been able to do so from their own production facilities; when there has been, for example, a sudden increase in demand and they have not got the equipment to meet it, or have not got the people to man that equipment. This is still a small proportion of their business.

So the elimination of tariffs helps the movement of goods when capacity is under strain, but the company said that they cannot guarantee this, because they cannot guarantee that their affiliates in the EEC will not be in the same position, at the same time. However, it has become easier to do. It is still not necessarily the preferred thing to do, on a large scale, because of the extra costs that are introduced - freight costs, for example - so it is a reserve facility which helps reduce the risks in their business.

So, other factors being equal, being in the EEC means facilities for the company and its affiliates to exchange goods if and when the need arises. However, one should not underestimate the other factors which come into it.

Capacity in Use

As a company they have a very considerable emphasis in terms of running at a very high return on assets. This necessarily means that they do tend to run their equipment into the ground, that they make the maximum possible use of every piece of equipment they have. They have a seven day week, 24-hour, shift system which helps them in this respect and they build lines which they expect to be able to run close to capacity for most of the time. Obviously there are seasonal variations in demand which they have to build in excess capacity to be able to meet, so it depends which part of the year is being considered. They would not, in general, build in very much excess capacity.

Marketing Areas

Who set up the export areas in the first place is difficult to define, but essentially it boils down to the Mars family. The UK plant is not responsible for supplying any countries in the EEC other than Ireland. Being the original confectionery unit in Europe, they were responsible initially for supplying the countries which formed the EEC grouping, they sold to Holland primarily, and to Belgium, and a small amount to Germany and France, before the Dutch factory was built. UK plant helped build the Dutch factory, and helped build up their initial markets, by supplying them with goods for which they did not have sufficient capacity. After that the Dutch factory was more or less given exclusive authority over the sale of the group products in France, Germany, and the Benelux countries, although the UK plant retained responsibility for marketing to the old EFTA countries. Since that time - which must have been the mid-60s - there has been built up a separate EFTA marketing unit which is another autonomous unit within the group - in other words, it reports directly to the international head office, and is responsible for supplying Switzerland, Austria, and Scandinavia. This has, therefore, taken the original EFTA countries away from the UK unit, not as a result of the EEC policy, but as a result of the formation of a separate marketing unit for those countries. The Marketing units, with the international head office, decide the source of the products which they supply; in other words, they have a choice of buying from either Holland, France, or the UK. Up to now they have tended to buy from the source which originally supplied their markets - essentially the UK, except that for non-confectionery products they have tended to buy from the EEC countries as these are the units which originally supplied EFTA.

A decision by any unit to buy from one affiliate, and stop buying from another, effects the whole group's operation. Consequently any move of this kind would be subject to collaborative discussion

between the Units and the international head office. There is a constant review of supply policy whenever it affects the production between the sister companies, and it will vary, of course, from product to product, depending on the facilities, and the demand in each of the countries concerned. The objective of this policy is not to increase the sales of the group as a whole. Because they operate as independent units, each of the general managers of the UK and Dutch factories, and of the EFTA marketing units, will be trying to meet their own financial objectives, and only a compromise between them will finally resolve the issue. In other words, before changes are made, the international head office will want the general managers to have come to a common agreement as to what the policy should be. The decision to buy from one unit, rather than another, will not be left to one managing director; if agreement cannot be reached between the three general managers, then in the end the head office would decide, if they considered it in the interests of the group.

The Organisational Changes which took place to meet the EEC Market

The group as a whole has thought of a whole range of possibilities for organisation throughout the EEC. One possibility is to have an autonomous, but combined manufacturing unit, with a separate marketing unit, in each country; so the manufacturing unit would be treated as a profit centre, and likewise each of the marketing units in the separate countries. Another possibility is the formation of a single confectionery company for the whole of the EEC; this is one possibility that has been considered. This has not happened, but helps to illustrate the wide range of possible organisational alternatives for the group. The group has not essentially changed its organisation since the formation of the EEC; there have been very minor changes, to date, as far as confectionery is concerned, but it has considered alternatives, and it does not mean that they will not change. It is a very slowly developing, evolutionary process, and is very dependent, too, on the particular personalities of the people at the top of the various units,

and the way that the family feels that it wants to develop.

On the confectionery side there has been very little change to date, but on the petfoods side there has been the establishment of a European general manager. This has taken place since the entry of the UK into the EEC in 1973. He is responsible for both manufacture and marketing in the EEC countries, and also has some export country responsibilities outside the EEC. He depends to a large extent on the existing structure within the original operating units. At the centre of the European petfood operation there is a very small staff for marketing, operational research, and finances. There is no organisation planning the day-to-day activities within the operational countries. It deals only with the EEC and gets involved with any matters which affect the operations there. One would be more aware of the scope and the necessity for the change if one considered the context of the family control of the whole group. There are three people, with a small staff, based in America, controlling a very large number of companies throughout the world; in fact that small staff spends most of the time travelling. The formation of the post of European general manager in petfoods, is to be seen more in the context of helping the family reduce their burden of work, than in terms of the benefits that come from the coordination of the EEC activities.

So these were the changes which took place after the UK joined the Community but one must qualify that by saying that the decision to put a confectionery manufacturing unit into Holland in the first place may well have been influenced by the fact that there was already a separate EEC organisation, excluding the UK, before entry. Whether that decision would have been different if the UK had been in the EEC originally, the company does not know. They suspect that it would not have been different.

The influence of the UK Entry into the EEC on the Company's Operations (advantages and Disadvantages)

The main influences of the UK entry into the EEC have been, firstly, the ability to transfer products more easily, which is minor importance to Mars; secondly, the changes which the EEC policy itself has imposed

upon Mars - the acceptance of the common agricultural policy and the changes which this brought about in the prices of their main raw materials. The latter is the factor which has had the biggest impact - it has made a major increase in the cost of their raw materials, such as sugar, milk, eggs etc.

There appear to be reduced opportunities for them to buy raw materials of all sorts as a result of the CAP policy. This is the direct effect - it has increased their prices.

Raw materials are their largest costs, cocoa being the prime one, but unaffected by the CAP policy. Their second highest cost is sugar, which is affected by CAP, but of increasing importance to them are the costs of milk and dairy products generally. The company could not quote these figures to me. Of course, in terms of general price inflation in the U.K. these problems fade into insignificance, in that the general price inflation on their raw materials is probably greater - much greater - than the inflation which has been brought about by the transition to EEC prices. They were used to buying cocoa at an average of around a £250 a ton and now they have to face markets which have gone to £1,200 a ton. Because this is their most important raw material ingredient, this has had a major effect on the price of their products. This is a major disadvantage for the company due to Britain's entry into the Community. Apart from the fringe benefit of moving the products between the affiliate companies, the company cannot see any major advantage.

This is the position to date - the advantages and disadvantages which they have reaped so far.

The disadvantages - and they may only be apparent disadvantages so far - also include what appears to be an excessive bureaucracy on the part of the Brussels Commission in terms of the harmonisation of consumer legislation, where the requirements which they appear to want to introduce create very serious obstacles to Mars in terms of maintaining their marketing efficiency. The effects of legislation are not yet fully in force, so the company cannot talk about burdens which have imposed, only about the burdens, which current intentions

are likely to impose. There are changes which they will be required to make under existing legislation, unless that is changed, which involves changing the nature of that product which is called chocolate. It changes the information that has to be provided on wrappers of products; it greatly complicates the amount of information that has to be provided; it changes for some products, the range of sizes which can be made. The EEC Commission would like to have certain standard sizes for certain products - for example, block chocolate in the UK has been traditionally sold at ½lb. ¼lb. weights and in other varying sizes. Now, the Commission would like to have a system in which the weights did not vary within block chocolate, that reduces Mars flexibility in matching value that they offer to the absolute price level which they expect the consumer to be charged, and because they are dealing essentially in small value items there are certain price levels which Mars prefer to maintain. But in order to maintain those price levels in a period of inflating raw material costs, they have to vary their weights of product. The alternative is to go to much sharper changes in price in order to maintain a given weight level over time. That, to them, is a less efficient method of operation.

So the legislation affects the ingredients of the product and it affects the information on the brand itself.

Regarding prices, the company does not think there will be any direct influence, although the above mentioned two factors will indirectly affect the price. There is no legislation which affects their flexibility to choose what Mars considers to be the most appropriate price, given the other conditions that the Commission is imposing. But it is these other conditions that are being imposed which will affect what price the company has to charge, and when it has to change it. But of course the major effect on price at the moment is the national UK price code.

The Ability to sell the same kind of Product in the Extended Market

If Mars were supplying from the UK to a Continental market, they would test out in that market first of all the standard product which they use in the UK, and variations of that standard product, to determine whether there was a significant preference within that country which required them to make changes in their product. What happened in reality is that the UK plant is not manufacturing much for the other EEC countries, and the Dutch unit does make slight differences in its products to these produced in the UK plant. If one buys a Mars bar in Holland or France it will have slightly different ingredients to those in the UK. Now, because the UK has a more established unit, they have some products which are successful in the UK and the Dutch unit would like to try out in the rest of the EEC. The UK plant arranges to supply products for sales tests, occasionally making some changes to products supplied, sometimes using the same product as in the UK; it depends very much on the particular product.

It happens in other ways too, in the food industry plagiarism is part of the way of life. The company cited the example of Cadbury's Curly Wurly which is sold in the UK, and is a caramel product with a very high apparent value - it is a very long strip of chocolate-coated caramel which had a very big initial success in the UK. The company's Dutch factory copied it for sale in the non-UK and EEC countries, whereas the UK unit did not think it was worthwhile copying it here, because Cadbury's had already taken the initiative. That would have happened anyway, EEC or no EEC - the copying of products would have continued.

Another disadvantage - and the company is not quite sure how far legislation has gone in this area, so they are not speaking with any authority, but they know it is giving a good deal of concern to their marketing people - is the harmonisation of advertising legislation. It appears that the particular policies which the EEC Commission wishes to carry through would seriously affect the sales of their

products, and would seriously reduce their ability to sell products in the way they would wish. This has nothing to do with the fact that it is the EEC itself which is doing this, but it is because of the way that the officials in the EEC want to shape the formation of the policy. So Mars is complaining about the disadvantage of the policy, as opposed to the fact that it is an EEC policy. But it has not yet taken place, they are fighting it.

The Future, the Company and the EEC

They think in the future the existence of the EEC is going to make it easier to harmonise their confectionery operations with their sister companies in the EEC if they want to. They do not think there are going to be any major changes in the short term; they think there will be very long term changes. They cannot see themselves, for example, having a single European confectionery factory, what may happen is that they build a number of specialist factories throughout Europe which supply the whole of the EEC. There is no benefit to them, at the moment, in closing down their lines in any of the countries concerned and building a big new line. So there will be a long term harmonisation policy between themselves and their sister companies. It is not yet company policy that there will eventually be a single management unit for confectionery throughout the EEC.

The Impact of the Extension of the Market to Include 250 Million People on the Company's Performance as a Consumer Goods Concern

There always has been 250 million people for the Mars group; joining the EEC has had no impact on their operations at Slough - none whatsoever, because they were already established in Europe.

Main Competitors in the UK and the Rest of the EEC Market, and the Status of the Company Amongst Them

In the UK their main competitors are the Cadbury Group, which comprises such companies as Cadbury-Fry, and Pascall; and the

Rowntree Group which comprises such companies as Rowntrees, Mackintosh's, Fox's, Duncans and other smaller ones. The company rates itself after these two in sales volume and sales value; they are No. 1 in terms of profitability, if profitability is measured by return on capital employed, or working capital; and No. 1 in terms of turnover per employee; and in terms of the ratio of output per man. If one measures output per man in terms of kilogrammes per man hour employed, then Mars is improving, because they are both heightening their automated processes, doing what they did before with fewer people; and are in a situation where they are running very much closer to capacity, at this point of time, than they have for a few years. The question remains whether competition is catching them up in this respect; they think that is so. They established from their very early days a very much greater lead over their competitors and they think that over time their competitors have learned the lessons of Mars and have improved their position. Whether they will ever get up to Mars' level of output the company does not know.

Other areas of the superiority of Mars over their competitors are it's higher management skills; in general it has better people; it has more flexible people. The company believes that it has more good products than its competitors - in terms of consumer acceptance. In other words, they have more strength in depth; they have a smaller product range, but a larger number of very strong selling lines. Historically they enjoyed a good price advantage over competition in terms of grammes of product per penny cost to the consumer, because of the great efficiency of their manufacturing operations, the type of product that they have produced or concentrated on, and because of their greater facility in areas such as commodity purchasing, where they have been able to make gains on the terminal markets which they have been able to pass on to the consumer in terms of better value.

They think their advantages in the latter case are less than they used to be, as their competitors have copied their methods - sometimes not so successfully, as the Rowntree debacle of a few years ago showed, when Rowntrees lost about £30 million. But the company likes to believe that they are still able to offer, across the range, better consumer value than their competitors. It is difficult to be precise, because their competitors are not selling quite the same products. There is a mixture of values which the consumer puts to the product which is difficult to take out of this overall evaluation.

Their competitors in Europe are essentially Nestle's, Geerhardts, Ferrero's. Nestle are Swiss, but their sales in the EEC, non-UK, are higher than they are in the UK. The Italian company, Ferrero, is an important and growing company.

Penetration of the UK market by Firms in the other eight EEC Countries since the UK joined the Community

The company which has done best in the UK, since Britain's entry, is Ferrero's of Italy. They have introduced types of product new to the UK market; an example is Tic Tac mints, a premium price mint product which they backed up with very heavy advertising and obtained very good distribution, as a result of a novel form of display unit. But this has not hurt Mars as they have no major mint products. In all, there has been no significant impact on Mars as a result of competition in the UK market from firms in the other eight EEC countries.

The Impact of Britain's Entry into the EEC on the UK Confectionery Industry

The company think that Cadbury's and Rowntrees have benefited more from the UK entry into the EEC than Mars. Mars was already strongly established in Europe, and the company believes that Cadbury's and Rowntrees had a number of ventures into Europe, before UK entry, which were not successful. Mars

believe that now Cadbury's and Rowntrees are able to work more efficiently towards establishing a European base, because of the UK entry. Another point is that the UK confectionery market was more efficient than those in Europe before the UK entry, which is why the company thinks that Rowntrees and Cadbury's can benefit from the change - whether they do must be left to history to judge. The efficiency of the UK confectionery market is in terms of it's retail development, the very high levels of confectionery consumption which this has produced, and the consequent ability of the major manufacturers to develop very high volume products and efficient production processes as a result.

The company's plans to meet increases in raw material prices due to EEC legislation

The company does not have any specific plans for making representations over the CAP policy - they think that is much too big an issue for them, either as a company, or as members of the trade association, to take up as an issue. They believe the areas that they are most affected within the CAP policy, are those dairy products which enjoy very large markets outside confectionery. They think the CAP policy has a relatively small impact, but Mars certainly believe that they must make strong representations over advertising changes, and the specific legislation that affects confectionery. They will do it almost entirely working through the UK trade association, which is the Toffee, Chocolate, Confectionery Alliance.

Economies of Bulk Buying

The company is not particularly sensitive in this area, as if they were to buy half as much coca as they do now it would not significantly affect the price that they would pay for it. That is because the company deals with the terminal market; it depends on the state of the cocoa terminal market. If there is a short supply situation with demand rising, then it is preferable to be

in a situation where not much cocoa is needed. On the other hand, one could argue that because, as an international group, they buy very large volumes of cocoa, in fact they are the major world buyer, that gives them a certain amount of influence on the market which they could exercise in some instances to their advantage. But Mars thinks this situation can make things more difficult for them as well, as they are watched by the rest of the market; anything that they do, significant to their own demand, has an impact on the market price, and this can work against them. They are not sure that on cocoa there is a large benefit in bulk buying but where the benefit comes is in providing them with the ability to research into the cocoa crop - to fund research so that they can anticipate more precisely what the market may do. For other material things, like packaging, where they are very dependent on external suppliers, Mars' requirements are much more diverse - there are more types of packaging needed instead of one type of cocoa - then buying in bulk certainly does have advantages, and puts them at less risk in terms of their continuity of supply. But the company has not said in this area that in the end bulk buying was a major consideration.

Economies of Scale

Marketing Economies of Scale

There are large economies of scale in this area, but the company is not sure that they would rank them higher than, say, the ability to use larger plant at lower capital cost, as Mars put considerable emphasis on the capital employed, and expect to have a high return. Other companies would be quite happy to take some of Mars' minor products - products that they get rid of - because it would provide them with what, to their view, would be a satisfactory rate of return. Mars just would not entertain this idea. They are very sensitive to a change in demand, in terms of the return that they can make, because they enjoy a very low margin of sales, and a very high return on assets. This means if their demand falls,

and they cannot reduce their fixed costs quickly enough, then their return on assets drops very sharply. 1975 saw the biggest overall drop in the UK confectionery market demand for more than twenty years, largely as a result of price effects. It hurt Mars less than their competitors, but it did hurt them, and they had to undertake major cost reduction programmes as a result. They were able to face that situation, as they enjoyed a very good contribution from their manufacturing division, they had postponed capital projects which would have been undertaken last year, and they probably maintained their equipment to a lower standard than they would have done otherwise. They ran with fewer people, they reduced their scrap levels; they found ways, in other words, of reducing costs - probably at the same time putting greater strain on the people involved, but it was recognised that this was a serious, but temporary situation, and this was accepted.

Distribution Facilities and Channels, and Resulting Economies

Physical distribution is carried out by contract companies, in other words the company does not own any lorries. All of the transfer of goods from their finished goods warehouse to the customer, as opposed to the consumer, is done by external agencies, but at the same time, Mars add, two thirds of their business goes through wholesales; only a very small amount to direct retail outlets. The great bulk of their business goes to either wholesalers, or multiple chain warehouses, and that has not changed much over recent years. The economies here are the results of choosing the right contract with the right capability, accurate deliveries and the lowest cost.

The Ability to achieve Technical Economies of Scale by Linking Together Processes in one Production Unit

They have very few batch production processes; nearly all of their production lines are continuous processes, so that, in that sense, they have already achieved the economies of scale that can be obtained. At the same time they are continuously reviewing

whether it is possible to combine lines in order to obtain that kind of advantage. They would do so when the financial criteria are satisfied, but if there are two production lines, the cost of replacing both by one production line is so large, that they will not readily change.

Economies of Attracting, and Employing, More Skilled Labour Force

The great bulk of their labour is involved in wrapping and packaging operations, and is therefore unskilled. So no economies could be achieved under that form of economy of scale.

Ability to Use Larger Plant at Lower Capital Cost

In clarifying whether the company enjoys this form of economy of scale, Mars stated that they will instal the largest possible plant to meet the expected demand, subject to their ability to maintain their minimum return on assets requirement. As this answer failed to meet the form of economies of scale, they were asked to clarify it, and I understood it to mean that they meant the economies of employing specialised and technical equipment.

Efficiency

Output per man

The company stated elsewhere that one of the factors of their superiority over competitors is the high productivity they posses. They added that the productivity ratio is always improving.

Attracting and Employing Managerial Skills

The company, under today's circumstances, think the extended market might, in fact, reduce their ability to attract and retain the appropriate managerial skills, because of the particular UK policies. The current situation in the UK of depressing differentials between managers and production workers in terms of pay, the lack of incentive which is created by the introduction of ceilings on pay, and the general attitude towards all differentials, militate against the effectiveness of the UK, compared with European countries. So if Mars were advising somebody starting out on an

industrial career where to go to enjoy the biggest rewards long term, they would advise them to go to continental Europe, because that is where the opportunities lie.

The Effect of the Performance of the UK Economy on the Performance of the Company

Mars were affected in two ways; the reduction in the total demand for confectionery as a result of the price increases, brought about partly by the poor performance of the UK economy, and inflation which that in itself introduced; and partly by the inflation - the world inflation - of raw materials, brought about by the oil situation. They would not like to say too strongly which was the most important, although certainly the UK economy features in the list of reasons why the confectionery market became depressed. Another effect, they believe, is the long term effect on efficiency which the introduction of controls, brought about by the poor economic situation, is going to have on their flexibility as a company; one could say that things like the price code, and the control of incomes, has affected their efficiency adversely, but these have been brought about by the poor performance of the UK economy.

The Effect of the Devaluation of the £ on the Company's Performance

The actual floating of the pound has not affected them but the consequent reduction in its value, and the consequent cost of their imported raw materials, has affected them. They were directly affected through the cost of their raw materials, but 80% of which, in value, are imported. Mars added, at the same time, that the devaluation of the pound in recent times has helped their export performance, and there have been other ways in which they have benefited from the EEC system, in terms of exports. For example, the EEC Commission used to have very bureaucratic procedures for determining rebates on the cost of raw materials which were imported and then re-exported. By careful study of the rules, and use of the options which the Commission gave under those rules, the company was able to reduce the cost of their exports compared

with their UK competitors. The company cannot say too much, because there may be some aspects of the policy which they can still capitalise on, but in general the EEC had ways in which one could in effect fix the rebate that one would get for certain periods of time ahead, and at the same time the methods by which the Commission changed the levels of the rebate could be forecast from the performance of the markets. So the EEC rebate system in itself became another kind of terminal market, in which one had an inbuilt advantage, because one could forecast what they were going to do, and then work out what the best policy was. That was because they were bureaucratic in their approach; the Commission have realised now that people could do this, and have changed their behaviour.

How Far the Trade Agreements between the EEC and between other Countries in the ROW helped the Company's Exports to them

Not significantly. Mars said that it may be ignorance on their part, but they do not believe that it has had any major impact on their performance - largely because in the associated territories they have a very high level of sales. Another reason is that Mars' major makets are the industrialised countries of the old Commonwealth, like Canada and Australia, so they have not benefited so far.

Final Word of the Company on the UK Entry into the EEC, and its Effect on their Performance

Regarding raw materials , if Britain had not entered the EEC, the company would have been in a preferential situation, as they would have been able to buy their raw materials from the cheapest source. The fact that the UK had entered, and that Mars as a company were quick to recognise opportunities in the CAP system, and the agreement between the EEC and the UK which Mars could take advantage of, gave them a little bit of edge in terms of their performance with other UK, or European, confectionery manufacturers.

In general terms the EEC has not figured as a major factor in the

company's think or operations; they are still very dependent on the UK confectionery consumption. That is Mars major market, and that is what they are here to satisfy and develop, and the EEC changes have not really altered their operations.

INDEX OF TONNES DESPATCHES

	1970	1971	1972	1973	1974	1975
UK1	100.0	113.5	124.5	135.6	122.0	112.3
EIRE	0.4	0.5	0.6	1.0	1.6	1.6
DENMARK	0.4	0.5	0.6	0.5	0.6	0.5
GERMANY	-	-	-	0.7	0.3	0.2
BELGIUM	-	-	-	-	0.4	0.3
HOLLAND	-	-	-	-	0.3	0.1
U.S.A.	1.0	1.3	3.0	7.0	11.2	14.7
OTHER (NON-EEC)	7.9	8.7	8.6	10.2	11.6	9.2

CASE STUDY NO. 7

COMPANY : The Associated Octel Company Limited

LOCATION: Head Office - London

CONTACT: G.B. JENSEN, Assistant to Managing Director

THE ASSOCIATED OCTEL COMPANY LIMITED

CONTACT :Mr. G.B. Jensen

Background:

The Company was formed in 1938. All the manufacturing units in the U.K. operated by the Company are the property of its subsidiary, Associated Octel Company (Plant) Ltd. The first plants built in the U.K. were at Norwich, Cheshire, for the production of tetraethyl lead (TEL) and at Hayle, Cornwall, to extract bromine from seawater (the bromine is converted to debromothane which is a component of the compound). These two plants were completed in 1940. With the growing demand for antirock compounds during the post-war period, additional larger plants, completed by 1954 were built to increase production. At Ellesmere Port, Cheshire, TEL and, more recently, tetramethyl lead (TML) are produced, together with some of the intermediates, sodium, chlorine, ethylchloride and dechlorocthane. The original bromine plant at Hayle was closed in 1973, but bromine is now extracted at a second plant located at Amlwch, Anglesy Scotland, where debromecthane is also produced. In 1960 the original TEL plant at Northwich was converted for production of TML. The associated Octel Company Ltd., is part of the Octel group, which consists of it and its subsidiary and affiliated companies in the U.K., France, Germany and Italy. The Octel Groupe is concerned with the manufacture of lead ALKYL antinock compounds for addition to gasoline. These products, referred to as compounds, are distributed to refineries in most parts of the world, outside North American Continent.

Pricing Policy

It has a flexible pricing policy, starts with the cost, plus formula, and takes into account always the competitors prices.

Main Competitors and Competition

Four American Companies, one of them in Greece. In the EEC there is one company in Italy called "Slowy" it is a very small company that only produces 1300 tons, economical production would have to be over 25000 tons.
So, there are no national firms, in the EEC competing against the Company, other than the Italian Company and the American Company in Greece.
The Company does not face a penetration of the U.K. market from outsiders. Price regulations in the U.K. makes it very difficult and not worthwhile, for overseas companies to compete against the U.K. low price, as compared with the high prices they can get in Germany or Italy.

R & D

They have engineering and research departments. They play a great role on the operations side, but they are not involved in producing, or developing, a new product; there are no areas for new products and product research stopped 40 years ago.
The production process is the area in which developments is likely.
The product and its ingredients are settled world wide, but the making of it, and what has to be included in it can be improved.
They are also involved in improving the efficiency of one of the elements used, sodium for instance, and the quantity they can get from the element by changing the temperature, or the chemical processes needed.

Who handles the sales

The Company sells directly to its customers and sells through

agents as well. Most countries in the world have agents appointed by the Company.

The Sales and Marketing functions

There is no separate organisation that deals with each individually, both functions are dealt with in the same department.
There is a marketing manager, and the sales manager reports to him, but this area is going to be reorganised.
The Marketing manager has distribution, sales, supply and planning, reporting to him for the time being.
Advertising and promotion, as tasks of the marketing function, are not exercised in the Company; products are sold only to oil companies and refineries, in total 250 of them around the world.
The promotion is conducted by personal contact, and through technical publications of the Company.
The market research, to determine the total market and its trend, is undertaken by the Sales department.

Growth of sales in 1971-1975

There was no charge in the last five years.

Profitability

It was satisfactory, in terms of capital invested and turnover.

Special features the Company has which gives it a special place in the Market

Owners The Company is owned by five of the Seven Sisters of the oil world. They set the Company to make a particular product, not to go into other products, which is certainly an advantage.
Patents Most of the products which came 10-15 years ago, the Americans invented first. They built their plant under a licence from the Americans.
Experience The knowledge they have is not better than their competitors. In fact in many areas the Company coordinates

with its competitors; In safety for in stance, because the product is extremely dangerous as itself, not when used as a final product. The product is an organic toxic material and therefore in many areas of distributions and handling, they combine with their competitors, and establish standards for the international bodies and try to come to agreement as to methods of distribution.
In production processes, they cooperate as well. The product is dangerous to make; there are some reactions from the huge containers they use, and if there is an explosion it goes through to the container vessels.
So, the exchange of experience is helping the company to gain a unique place.

Brand Name

As they are not a Consumer Product operator, they have no brand name.

Covering the elementary questionnaire
Plants in the EEC Countries

They have had a joint plant in Italy since 1967, they have increased the production by the knowledge exported to the plant from the U.K.
In France, they have had a joint plant since 1939, just before the second World War.
In Germany, they have had a joint plant since 1966.

Numbers of employees

The Company employ, in the U.K. plant, just over 2,000 employees.

Have they traded before 1973 with one of the EEC Countries

Yes, they did with the Benelux Countries, and with France, Germany, and Italy.

What did they expect the changes in their sales volume to be in the EEC after U.K. joined the Community

The Company expected no change; unless they considered as favourable the reduction of tariffs, and their effect on the distribution facilities it provides the Company with.

Did the Company's products carry full import duty prior to U.K. entry into the Community

Yes, they did.

The expectation of increasing the sales volume due to the tariffs reductions

None, the Company expected, and experienced, no changes in their sales volume due to the tariffs reductions.

Did the Company expect, and thereupon experience, a competition in the U.K. from firms in the EEC countries

They have not experienced it, but as they stated, they do always expect it, and the preventative element till now has been the price code in the U.K. If this is removed the Company expect that the price will revert to the world price, and that producers will be looking to the U.K. market.

Did the Company expect to change its methods of marketing and distributions in the extended market

No change, although there have been different thoughts about it, but that does not have anything to do with the Common Market, as the Company is always looking for ways to retain their market, one of the changes occured in Germany even before they started operating there.

Under severe competition as they are, the company always looks for new ideas.

Was the Company able to sell the same kind of products in the extended market

Yes, and there was no need for any changes, minor, major, or to a completely new product.

Did the Company intend to, or did, invest directly by locating a new plant, or sharing a joint venture in one of the EEC Countries

No they did not. The Company has plants in Germany, owned partly by the daughter company of their shareholders, who are Shell, BP, Obel, Texaco and Standard Oil California, and partly by them. The Company holds the major part of the plant, production organisation and manage it. The Company has also joint ventures in Italy and France. They do not intend to put more investment in other of the EEC Countries.

Forms of economies of scale the Company experience

As a Capital intensive Company they enjoyed:

- improved level of products per man; the productivity ratio is always in its favour.
- Ability to use larger plant at lower capital cost. The last time they experienced this kind of economy of scale was in 1971 when they expanded in the U.K. with a 30,000 tons plant. In counter-balance to the economies they achieved in the U.K. were the diseconomies they achieved in their investment in the German plant, which was on a small scale. What decided them to invest were the barriers between the U.K. and Germany (before U.K. entry into the Community) which they wanted to avoid.

- Longer productions

They do experience that form of economies of scale because of the nature of some of their operations, which have to be run 24 hours a day. (If the sodium operation is shut down, the sodium turns to a forzen solid and it takes 9 months for the process to be restarted)

- Economies arising from exchange of experience between the affiliated companies

The very experience of other affiliate companies, and the fact that they freely exchange information about production, has helped the Company in improving it's production methods. The experience

of the production men, say in Germany, is available to them, and vise-versa. An example of this is in what the Germans did in going to one of the U.K. Contractors for equipment in Germany to remove a load by air; and they suddenly found that they hit something worth acquiring.

The preparations the Company undertook to meet the extended market, (the EEC) in the knowledge that the U.K. will join the Community

The Company does not think that they really had to do anything at all, except tonote that it was happening. They had already taken action 10 years before hand, when they had decided to build plants within the Common Market.

In 1966, the Company had a plant in France; in the investment decisions the Common Market was one of the factors which decided them to put a plant in Germany in that year (1966). One of the factors which decided them was that Germany was one of the members of the EEC, and to export there they would have had to go over tariff barriers at that stage. In Italy they formed a joint Company in 1967, again well before the U.K. joined the Common Market:

(a) In anticipation that she would join.

(b) To avoid the tariff barrier.

(c) As a distribution advantage, that it would be better to manufacture in the market if they meant to trade there.

(d) As a national interest because the Company's products are very important in terms of a background taking them back to the war time.

France, Germany, Italy, and the U.K. all built plants in the 1940's for national security reasons, because the Company add lead to gasoline and this increased the Octel rating. Obviously West Germany cannot be without one of those plants.

So the Company, at the time the U.K. joined the Community, was well established in three major countries of the Community. The

company did not feel the need to make any preparations or changes in their operations or their organisational structure. They had established companies who had operating plants and who were selling the products within their domestic markets, in France, Germany and in Italy. In the Benelux Countries the actual physical supply was moving from the surplus product made in France, Germany, or Italy. As the surplus was not enough, there was a tariff paid in moving the products from the U.K. to the Benelux countries, joining the EEC brought that tariffs down.

How the Company look to the extended Market

Apart from the saving in tariffs that the company enjoyed with regarding to the Benelux Countries, they were very much neutral on the issue. They realise that the decision has already been made for them in joining the EEC.

The relationships and harmonisation between the U.K. plant and their sister companies in Germany, France and Italy:

The U.K. plant controls the German plant completely, in the scope they are allowed by Germany's national law. All the transactions are in arms length officially. The U.K. company also is represented by 2 members on the board of the German company, (the U.K. Managing Director and U.K. Overseas coordinator). In terms of Capital, a large proportion of the German company is owned by the U.K. Company. There is control in practically every aspect, pricing and production. However with the sales policy there is an agreement between the U.K. and the German company that they sell only to their domestic market, and the German company will make available any surplus production to the U.K. Company.

Similar arrangements are made with France, that the U.K. Company is not allowed to market in the French domestic market. There again the company owns a joint company in France in partnership with a big chemical company, 50% of the company that makes the products is owned by the U.K. company and 100% of the marketing company as well. They meet some of the old French colonial sales in North and West Africa, but this is only a small part of their market. Again if there is any surplus, they must make it available for the U.K. company to buy. The same arrangements apply to Italy (started in 1967).

(B) Harmonisation in raw material and purchasing

The company is in a position to compair prices, ex-works, of nearly all the manufacturers within Europe, including, of course, their sister companies. It can help, if a certain supplier has the same raw material be used in the U.K., France, Germany or Italy, the company can make an overall deal to supply all the plants at a lower price, (sodium is an example for that)

(C) Harmonisation in competition

The sister companies do not compete with each other. The German plant, under the agreement, sells into the domestic market only,, and makes its surplus available to the U.K. plant, should the need arise, but if the U.K. plant does not want that surplus, they are unable to sell it.

(D) Harmony in Production

There is great harmonisation in the production, regarding the products, and the methods and processes used

(E) Harmonisation in the pricing policy

There is bound to be a certain amount of harmonisation, as the countries where the associate plants are (Germany, France, Italy and the U.K.) are close to each other. If there was a difference in the Selling Prices, the oil companies, or chemical dealers, would want to buy in the cheap countries. So, the price policies between the affiliated companies are harmonised to meet the market conditions and requirements.

(F) Harmonisation in decision making

There is a post held under the name "Overseas Coordinator" that is, the manager of the overseas companies. He holds periodic meetings with the managing directors of the affiliated companies in the EEC, who, with the executive committees in the U.K. are involved in any issues which need harmonisation, especially prices, and take decisions regarding them.

The Main Marketing areas for the U.K. Company:

The home domestic market, the Benelux Countries in the EEC, Denmark, Italy and Eastern Europe.

The effect of the elimination of tariffs, on the export Sales Volume to the EEC Countries

The Company does not think the gradually eliminated tariffs have increased their sales to the EEC countries, it did not effect their share of the market, particularly with their American Competitors. It helped only in reducing their distributing costs, and they think it would continue to do so. Tariff elimination helped them in their Eastern European market, as it rationalized their distribution. Instead of the German and Italian plant supplying the Benelux customers, the U.K. plant supplies the Benelux Countries, and the German and Italian plant supply Eastern Europe, so saving themselves cross hauls in distributions, which is important with the high freight charges involved.

Theoretically it works in favour of increased sales, because of the reduction of cost attributed to the elimination of tariffs, together with the effect of the devaluation of the pound. Practically it did not happen as the company faced severe competition from the American Companies who dominate the four big manufacturing plants in the industry. They produce 750,000 tons of the compound which the company markets, and the company produce 200,000 tons.

The company rated itself No. 3 among world producers, after two big American companies

The State of the British Economy and the Company:

The devaluation of the £s and the elimination of tariffs are the two factors working in favour of the competitive cost price position of the company. This could be offset by the high inflation rate in the British economy with its implications

for the export prices.

But as the company is a capital intensive undertaking, the wage inflation element dose not play a direct role in increasing their cost. The main material they use is imported (laid), which would be increased in price by the devaluation of the pound, making their operation costs increase. So, the devaluation of the £s which would be favourable in price terms has been offset by the rise in the cost of the material they import for the same reason.

What worked in favour of their imports bill was the relaxation in commodity prices (world wide) due to the recession in the world economy. With the world economy picking up, the rise in commodity prices, has increased their costs. Otherfactors to be considered to do with the increase in the material, imports bills are, the increase in demand because of the expectation of price rise, the building up of stocks as the recession reached its bottom, and the reflationary policies world wide which were beginning to take effect.

The total market is declining, there has been a cost increase in raw materials, which has been passed to the customer.

the company therefore is still profitable. The changes in sterling values means that the selling price is lower against their competitor The reverse effect is that their cost increases for the same reasons, changes in sterling values. The only added value in the company"s operations in the U.K. is labour. Most of the company's products is connected with energy, imported through crude oil, which contains Ethyl Chloride from which they make Ethylene. So the cost is directly attached to the case of crude oil.

The major elements of their production are BROMINE and DIBROMOETHANE which require a large amount of electricity to extract them from sea water. This again is an energy cost which is directly related to the cost of crude oil and costs of coal. Any benefit the company got from the devaluation in terms of lower export prices, is quickly offset by the cost rise in other elements. So to sumarise the effect of the state of the British economy, the company emphasised the following factors:

(a) the oil crises and the increase in oil prices.

(b) the increase of the cost of the imported raw material due to the devaluation of £

(c) the indirect effect of the wage inflation, which is higher than their competitors.

As the company passed the effects of the above factors to the customers, it affected their competition position.

The Company's product and its position and effect on cost

The company produce tetra Athyl lead which is added to gasoline, to improve it's Octel rating. It is the cheapest way to improve the Octel rating of gasoline to meet the requirements of the motor car. The product is being legislated out of existence. In Germany it has been reduced by about 2/3, in America it will go down by about two thirds by 1980.

So there is a tremendous surplus production capacity throughout the world which has an effect on prices. It makes the company less competitive. There is no benefits reducing cost, through elimination of tariffs. This spare capacity, the company for some reason declined to comment on.

The advantages in the Case of the Company of Britain joining the EEC

The fact that the company has to pay no tariffs, and the effect of that on the rationalisation of the company's distributions cost.

If they were an expanding company, which they are not, it would make it extremely easy for them to set the next expansion in the U.K., i.e. had they been in the EEC 10 years ago, they would have expanded in the U.K. rather than in Germany, or Italy.

As it was an international company, before the U.K. had access to the community, they were thinking European long before Britain's entry. The market the company penetrates is world-wide, except for North America.

If Britain had not joined the community, the situation would have been the same, except for distribution costs; i.e. the company would have found that it had to continue to do cross haul distribution, from Germany to Benelux, and from U.K. across To East Europe, and bear the cost attached to this.

The disadvantages, if there are any for the company, due to Britain's entry into the EEC.

In the legislated reduction of the lead content of gasoline, the Germans took most of their information from the U.S. The Germans decided on health grounds to introduce legislation which reduces the leverage of lead to 0.4 grams per litre in 1972 and to 0.15 in 1976. France, Italy and Benelux on the other hand, were only interested in reducing the level in 1976 (the second stage of the German one) down to 0.4, and at some later stage to take the content of the regular gasoline down to 0.15, leaving super gasoline at 0.4.

In 1973 there was the oil crises, and everybody realised that, although they might like to take lead out of petrol, this was a very expensive way of legislating for health, and Germany was pressing hard to get their level adapted to that of the EEC.

Now France, Italy, and the U.K., have joined together, and the reductions will go ahead at a later time.

Disharmonisation derived from that it could have been an obstacle to entry and so was a disadvantage.

This issue, therefore, has been dropped for more important issues in the oil industry, which are for more demanding for the costs involved.

There is an advantage which could be drawn out of that issue, that the company, after Britain's entry into the community, had an equal say through the commision, and can influence decisions taken. As evidence to show that the U.K., France, and Italy, are pressing the Germans not to reduce the lead percentage; the Germans are already accused of unfair trading within the Common Market, due to this issue.

The alternative to bringing the Germans into line with the other EEC countries is to build capital expensive refinery equipment, reformers, and more crackers which the Germans have already done. So the major companies in Germany would object to the U.K., and other EEC countries, proposal. The only thing they may agree to do is to delay the process.

Another conclusion is that the German market would consume less products and this would affect the market of the oil refineries who would buy less of the products. An example is that the Germans would consume about 25,000 tons at the lead level in 1971, but now they are consuming only 8000 tons, so there has been a reduction of 17000 tons. In the U.S. the market is going down from 600,000 tons to 200,000 tons.

The company's production of Athyl lead is becomming obsolete in Germany and the U.S., and in the rest of the Benelux Countries the market is decreasing.

The benefits the company experienced from the trade agreements between the EEC and the other countries involved in the ROW.

The company does not recall any advantages it gained out of these special terms, especially as it operates in some of the major countries, such as Greece and because it deals primarily with the oil refineries, who have stakes all over the world. Again the tariffs structure in the rest of the world would not be against them, because none of their products are produced outside the U.K., Germany, France, U.S. and Canada, so there would not be any tariffs barriers in countries other than those, to be benefited by trade agreements with them.
So, it did not make any difference to them, or to the industry, as a whole.

The Company, plans for the future, and the EEC.

Investments: There are no plans for the future to invest directly, or by joint venture, in the EEC, as the market was declining.
The company has joint ventures in Italy, France and Germany, and the remaining countries are covered by the distribution plans which are sufficient to the market capacity.
There are ideas to retain these markets; but the company is not in a position to speak about it.

Organisational Changes

None.

New Marketing facilities

None.

The company is very much tied to the common market, they predict that their market will decrease. They could not see any prospects for expansion. They make out a hypothetical case that, if they were going to expand, they would expand in the U.K. If the legislations in the EEC is going to be very secure, they would consider taking plants out of the EEC countries and would start with the most expensive marginal (producer) plant, subject to political considerations within those countries.

The expansion plans, if there are any, should be in the U.K., because lead is common to all the EEC area, France, Italy, Germany and the U.K.; sodium is made by the company from their own salt from Cheshire. The marginal cost in the U.K. is cheaper than in the other three countries where they have to buy sodium. Ethyle chloride is also made locally. So they have an advantage in setting this expansion here, with a higher cost.

So, overall they are much more competitive in terms of marginal costs and total costs, than all their affiliates in the EEC countries (France, Germany and Italy).

The Company's forecast, for the future 5 years, in the EEC market is for a decline, because of the reduction of lead in gasoline. Once they reached the lowest limits then the total market should increase in relation to gasoline growth. That should occur in 1981. So it is a steady decline until 1981.

ANTIKNOCK COMPOUND SALES

	1973	1974	1975
1. TOTAL SALES VALUE £m	48.1	64.5	84.0
2. OF WHICH EXPORT SALES QUANTITY	80%	80%	82%
3. EXPORT SALES QUANTITY TO E.E.C. AS PERCENTAGE OF TOTAL EXPORTS	15%	14%	13%

CASE STUDY No. 8

COMPANY: D.R.G. Flexible Packaging

LOCATION: Bristol

CONTACT: DAVID J. STANCOMBE
Management Services Executive

D.R.G. FLEXIBLE PACKAGING (BRISTOL)

BACKGROUND

(a) The Group

The Dickinson Robinson Group is one of the largest organisations in the paper and board industry. It was formed in 1966 by the merging of John Dickinson and Company Limited and E S & A Robinson (Holdings) Limited, both leaders in their respective fields of stationery and packaging.

DRG is an international Group, whose activities comprise manufacturing operations in the UK, Europe, Canada, Southern Africa, Australia, New Zealand, with a network of branches, offices, distributors, and agents throughout the world.

The House of Dickinson was founded in 1804 by John Dickinson, an inventor of outstanding ingenuity, and a pioneer of modern paper making. Today Dickinsons is internationally famous for its fine papers and a diversity of paper products.

Robinsons was founded in 1844 to make paper bags. It now consists of a number of companies which, together, provide a complete packaging service. These companies specialise in the manufacture of unit and bulk packaging made from paper, board, plastics, films, and foils. In the field of automatic high speed packaging, the Robinson organisation can supply about 20 types of mechanical systems, some of which are manufactured by member engineering companies, which also produce heavy duty mechanical handling equipment and printing presses.

(b) The Packaging Operations

DRG Packaging Limited consists of seventeen manufacturing units, and forms part of the Dickinson Robinson Group Ltd. With three exceptions the units of DRG Packaging Ltd. are concerned with the development, manufacture, and supply of protective and decorative packaging. In terms of sales, marketing, and development, units operate independently. Where, however, the needs of the customer are better satisfied, joint venture between

units enables the company to offer a comprehensive service, covering most aspects of modern packaging supply. The laboratories, and research and development departments, of operating units have the extensive backing on DRG resources, and interchange with Group marketing and manufacturing operations overseas ensures that units are kept to the fore in international packaging techology.

(c) The Company

Formed in 1928, and now one of the leading European manufacturers of protective flexible packaging materials and laminates. Modern plant and sophisticated control procedures ensure consistently high quality material production. The company is recognised as one of the world's foremost innovators in flexible packaging technology. Material can be supplied in reel, pouch, or sheet form, printed by up to six colour flexographic, or eight colour gravure, machines. Material can be given extrusion coatings of polyethylene, EVA, PVC, and other dispersions, solvent based lacquers, hot melts and waxes; or laminations by wax, polyethylene, and water and solvent based adhesives. The Company operates a world wide sales organisation with resident representatives and agents in many areas.
Of all the companies in DRG Packaging Limited they are probably the company who have done the most sales packaging of materials for export in general, and in particularly into Europe. They started about 40 to 50 years ago; their main production is in packaging materials which are in rolls, what they call work materials - continuous rolls of flexible packaging material. This is the sort of packaging one would see in a supermarket; packets of biscuits, or packages of confectionary or snack foods all have these sort of flexible wrappers around them.

(d) The Products in detail

What happens is that rolls are taken from paper machines that make polythene film, or similar machines, and then the rolls

are stuck together, or coated with a special coating - printed so that there are various designs. Those rolls are taken to a big manufacturer, like Cadburys, Rowntrees, or Unilever, who make margarine or confectionary; there are automatic machines at the manufacturers premises which take the rolls and cut them into narrower widths. The narrower rolls are then put on the back of packaging machines, the product is brought in, the packaging is automatically folded around the product, and the packaging process is finished.

The manufacturer is not interested in printing - or making the packaging - they are only interested in putting the product in the package.

The packaging that the Company manufactures is designed for a number of purposes, the main is to be automatically wrapped around a product to guarantee protection to keep the product in its factory condition.

The word flexible describes the physical properties of the packaging. Being flexible, it can be made, printed, and produced in big rolls which can then be drawn into smaller rolls, and then wrapped around the product. It can be formed into all sorts of packaging; some packages are really quite large, like a big pack of potato crisps, or snack foods, some are quite small, like shampoo sachets. But these are all what the Company call flexible materials. The other side are frozen foods in the Supermarkets - one sees packages that are rigid cartons, and they are obviously required to be rigid to give some physical protection to the contents, to stop them being squashed. Now the company's packaging gives protection, not the physical protection as the packaging is mainly for products that have their own rigidity, or are liquids. The property that this packaging gives is shelf life, the food manufacturer wants his product to be in factory fresh condition for one, 2, or 3 months. The manufacturer will recommend to the company the combination of paper or plastic

that they require their product to be wrapped to be confident that in 3 months the product will be as good as it was when first wrapped in the factory. Another thing is the printing side; nowadays products have to sell themselves, so the printing has to be attractive and interesting. The Company considers itself to be specialists in good quality illustrations of the contents, at the same time clearly identifying what the product is. There are certain legal requirements here, in saying what the ingredients are, and what the weight is of each individual package.
So, the Company's products are flexible, in the sense of flexible property, and of a whole range of different qualities.

Sales and turnover in 1974-1976

The turnover at the present time is in the region of £17/18 million p.a. (Calendar Year). Last year there was a sales turnover of £15½ million, in 1976 the company are hoping they will have a turnover in the range of £16/17 million. Of course they have the problem of inflation, it may appear to be a bigger percentage growth, or increase, than it is in real terms, so they hope in 1976 to produce the same amount in volume, in real terms, than they did in 1975, but unfortunately not much more, because of various economic factors. In 1975 they experienced the slump in the economy later than a lot of other manufacturing companies did. A lot of their customers, who are food manufacturers, were still taking quite large quantities of packaging material at this time last year, then they realised that they had too much packaging material. The reasoning behind this sounds a bit difficult to believe . . . . but packaging, to the buyer of a food company, is a small element in the total cost of production so he may decide to safeguard the supply of packaging, and would rather have too much, than too little of it. At the beginning of 1975 the inventories were high, because the buyers were not too worried - they knew that there were shortages from 1974

due to the raw material shortages that were caused directly by the oil prices . . . . and therefore the Company was very active. Then in the course of 1975, from say May, June onwards, their order book fell away very fast. What was basically happening was a period of adjustment by the manufacturer - he realised that he had a lot of stock, and therefore just sat back and steadily used it up, and did not call any new materials from the Company. The priorities probably were initially the manufacturers went for their obvious costs, but then as the Company got through to the end of 1975, the buyers said to themselves, "We are never going to carry as much packaging stocks as we used to". What the Company now finds is that demand is picking up, but it's not picking up to the same extent as the end of last year - whereas a year ago the buyers may have said that they will always carry eight weeks' packaging stock, to be very safe, they are now saying, "Well, four weeks' is enough to keep us, and if we run out, well, it's more important to save money on inventories and cash flow." The Company is finding that there is is a steady increase in it's business, but it is increasing from a very low level which was reached at the end of last year.
The whole packaging industry has had a difficult time in the last 6-9 months, because a lot of capacity has been idle; a lot of companies like their own shed stock - they shed employees, and therefore the threshold; in terms of the amount of increase in output before they get problems over employees having to work overtime, or increase the number of employees, or to make new capital investment; is that much lower. The Company is now beginning to get worried, as to how soon it will be before it comes up against this lower threshold.
So 1975 in terms of the financial results of the Company, which reflects upon their section of the industry of flexible packaging, was not a bad year; it was good at the beginning of 1975, then it tailed away very rapidly, but the companies all made profits.

1976 could be the other way round; the beginning of the year was not very good but things are picking up. They were hoping that by the end of the year (1976) things will be at a much higher level of activity, and if it is for the whole year it will be similar to 1975. 1974 was a very profitable year, they were unable to meet the demand and therefore were in a classic seller's market.
They could almost ask what sort of prices they chose, because their customers had no alternative - they had to buy from them because all the packaging companies were stretched for capacity. Turnover in 1974 was £15, £15½ million in 1975, but DRG has to adjust, because of the tremendous price inflation. In 1976 they are hoping that it will be somewhere between £16 and £17 million. In 1973 turnover was down at around £11 million . . . . so there was a tremendous increase in real terms between 1973 and 1974, then it peaked out, and since then it has slid away again, but in real terms for 1974, 1975, and 1976, there has been no real volume increase.

Production methods

One of the features of the production methods of the Company is that the Company sets up the production line for each order on its own. They don't have a standard production line, which can satisfy the orders of all customers, but set each production line according to the requirements of the customers, which differ according to the packaging needed for final goods. Pretty well every production run they do is unique - it may last one day, it may last 2/3 days to meet a certain requirement.
There is a question which arises here about how far the machinery at plant level is flexible to meet different requirements. The Company explained that the machinery, within certain limits, serves general purposes; a printing machine will print 4, 5, or 6, colours of different designs. They always gear their machines to being wide width machines, to try and get benefits of the longer runs (Economies of scale) so they try to get the bigger business.

Areas of marketing

Two thirds of their production is sold to the domestic market, and one third is sold abroad. The company exports to wide areas - the EEC is probably one of the biggest, quite a lot is now going to Scandinavia, particularly Sweden, and Denmark. They are also doing quite considerable sales to America; surprisingly enough - but this is due to one particular market they have. They have some traditional sales to what were the old Commonwealth countries, where their business relationships were set up in the Commonwealth days and have carried forward through the years. They used to do a lot of business with Unilever, and are still doing business with the companies locally, in Africa, and in the Far East, which have Unilever connections, but are trading under their own names. Apart from the EEC, which is one of the biggest export markets, the Company is selling equal proportions of materials to Scandinavia, to African countries, to the Far East, and also to the USA.

The EEC countries are where their main sales effort has been, and is continuing to be.

Who handled the Sales?

Ten years ago they had agents. Five years ago they decided that agents were not able to cope, because the volume of business was quite large, and the technical complexities of the product such, that agents were spending much more time on the telephone. So they started sending out representatives from England who went direct to the manufacturers. Now they have resident representatives in all the main Common Market countries; they are living in France, Germany, Belgium, and Holland. There is one covering Italy, Spain, and Switzerland; another living in Scandinavia at Copenhagen. They are living on the spot, as full time paid employees of the Company, and are selling directly to manufacturers.

The Marketing and the Sales functions and its Organization:-

Marketing and Sales are two separate departments. Marketing in

in the packaging industry is not marketing in the true sense, because they are marketing a concept to customers of a new style of packaging for a product. It's not the sort of thing that can be advertised on television, or in newspapers, because it is so specialised, so in general terms the marketing, technical, and sales effort, is very closely linked. Their men in Copenhagen, or Paris, or Brussels are required to do their own marketing, technical service, and sales. But there are some super marketing or technical people in the Company, who act as specialists, and go out for specific problems, or to see new potential customers and help their man with the promotion side, but these two functions are very closely linked. In the Organisation of these two functions, the Company has the Managing Director at the top, then the production and accounting sides. Then there is a marketing director, and a sales director to cover the world. The marketing director has certain marketing executives responsible to him, who are technical people: "firefighters" as well. The sales director has the resident sales staff responsible to him; he also has a sales manager, who lives in Austria and works from home in Innsbruck, so there isn't the need to have people in Bristol on the sales side. The whole emphasis is very much to employ nationals, but they are supervised from the UK. For all packaging materials an order comes to Bristol, and is sent out, because packaging materials of their sort do not bulk very large; they are easily exportable. They don't have to have a plant making packaging materials in France, or Germany, because it is still quite cheap to send millions of wrappers in a storage container. Now if they made tin cans, pre-made cans, or pre-made boxes, they would have to have their plant in Europe - as it would be too expensive to send them.

Does the Company have a follow up Service after Sales ?

Yes they have, because the problem with packaging materials is

consistency. If they are producing the requirement of one company then they can be producing thousands of tons, or hundreds thousands of meters, of material on a machine. Now whilst this machine is going round and putting on a coating, or printing it, the thickness, or the quality, can vary because controls are required. The company has a good reputation for keeping good control, and they test material very regularly on their quality control. They throw more material away than most other Companies do - which is probably why their prices are a little bit higher. The Germans tend to be very price conscious, but they still do business with the Company, which shows that they acknowledge the quality, but on price average, prices are still a little bit lower in Germany than they are elsewhere.

Pricing Policy

The Company's pricing policy used to be very much cost plus. They realise now that, particularly in Europe this cannot be so. As market leaders, to a certain extent, they were able originally to dictate what was a reasonable price, and that was arrived at by cost plus type routes, although its marginal costing is as they employ it. Since then they are very much stuck to the market price, in other words - what the market will bear; if the market, in areas where they are new, will bear quite a high price, they will go for that in a certain knowledge that it will steadily come down. And by doing that there will almost be a process where they can be sure they are developing new products (2nd generation/3rd generation products). There are a lot of companies around who don't do that; when the company is established in a market will come in and offer lower prices. DRG is usually successful in keeping them out, by the quality service aspect. If it is not that then the Company knows that another may well come forward with a 2nd or 3rd generation materials; so they keep advancing. If a medical company has a new

line of special instruments, or infusion sets, or something else, they know that the company would probably be able to help them. The pricing policy of the Company differs from country to country, but it is not easy for direct comparisons to be made with their materials. They deal with a lot of international companies now, who have plants in a number of countries, so they have to employ a certain consistency with national companies. They will tend to go for the market price, and if they can get that as high as possible, then they will do it because they are offering more than just the packaging, they try to sell a complete service.

Capacity in use

The Company try to operate where their demand is about 80% of their capacity, theoretically; practically it doesn't work. They are constantly in a situation where either demand is 100% of their capacity, or like it was during the latter part of 1975, about 70% of the capacity; they were about 30% idle or spare. 10 years ago they could plan to a nice level, and they knew that they were just up to their capacity of the market demand. Now they find that macro-economic factors mean there is a tremendous cyclical effect, it is almost impossible to plan the capacity needed. They found that they have to strike an average, they know that they are going to be short of capacity on some occasions, and on other times they are going to have too much capacity. Their policy is to try to have sufficient capacity to cope with average customer demand, and if they lose customers in times when they haven't got enough capacity, then its bad luck. They are not prepared to buy too much plant, so that when times are quiet they are losing money. Ten years ago they felt they were in control of this business, now the factors within their control are getting less and less.

Special features the Company possess which gain it superiority in the market

A. Licences and Patents

They have no licences or patents left. It is increasingly difficult to get

patent coverage that will stick within the EEC, because of the legislation. That is because, mainly technically, the law is such, they believe, that with their sort of packaging, a patent can be broken by just a minor ingredient difference. They can go to lots of trouble to get a patent registered, and they have to be registered in each individual country. They think that there will soon be uniform EEC patent, but the EEC governing body is against patents, against all forms of restrictive trading.

B. Monopolistic Conditions

The only thing that can be said is that they had, in the early days of their medical packaging development, a distinct technical lead. They had developed certain types of peeling - opening packs by peeling rather than tearing, which were developed through their American connections, which were patented, which they then used and developed in the UK. They did not have patent coverage or licencing coverage in Europe because they knew it wouldn't hold. It has taken other converters 5 years, or more, to be able to get the same qualities, in terms of this technique.

C. Past experience

The Company was established in 1928, up until the mid 1960's the knowledge of producing packaging was in peoples' heads and in the process of the control of man and machine. In the last 5 years/ 10 years, the rapid advance in the development of engineering of the machines has reduced the expertise - it has reduced the skills because the machines are controlled and cleverly manned now. There are still techniques, but it is easier now for people to come into the industry because of the sophistication of these machines.

Potential Production Policy

They have always had the policy of having a very wide range of products and this continues. There are worries and problems as they relied in the past on international chemical companies in developing new types of films, plastics, and resins, all the various ingredients that go into their packaging, and the rate of development of these, is

slowing down. As an industry they cannot afford to develop their own materials, they can only take from the shelf various products, and make new combinations of them.

R & D.

DRG have one at Shortwood at group level, it is not a very big operation, and not a lot of money is spent on it. It tends to be refining and coating techniques, not in any way R & D in the sense it would be in a chemical company or fibre company. They very much live off the backs of the technical development of the big international groups.

R & D nowadays is more and more confined to the efficient production of certain materials, than with basic products; if they have a printing machine how they want to know how they make it go faster, but have the same quality. It is rather more in what they call process development than organic development.

The steps the Company undertakes to approach a new market: with a special reference to the EEC Market.

Initially they would go and take the names of manufacturers who are operating the sort of products they are able to package, or will use their materials. To do that they used to go to commercial sections of the various British Embassies or Consulates, and first establish a contact there. While they still have contacts at this level, its very much now that, if they are interested in a certain product or area they get contacts in an international group of companies, and then use that group. The market research they do is usually reasonably basic, they have at their head office in Bristol a central research department for market information. They have contacts there with the major research organisations in the UK, like the Economist Intelligence Unit. They also have contacts with a number of EEC companies, there is one company they do a fair amount of work with (The Metra Consulting Group) and they have commissioned one or two individual survey through them, and have also bought a couple of their multi-client

surveys, they bought one on flexible packaging, 5 years ago, in the EEC. That was a multi-client survey and it enabled them to identify those areas they are interested in, and look at the sort of volumes, and packaging and types, that were then being used, then they started talking to the main manufacturers that were listed.

Profitability

They aim on a 12½% return on sales; that is pre-tax profit. They aim for a 20-25% return on capital - gross capital invested. The packaging industry as a whole is still quite good, in these ratios. DRG is quite strong; they are worried, though, because it is coming down, slowly.

Marketing Other Products rather than theirs

They market only their own products.

Modification of the Products

It is two way - a customer may say that he will not pay that price for that product, they will suggest he trys something cheaper; or if they are trying to get into a situation where a competitor is supplying him, they may develop, or have, a material which they think is cheaper than the customer is presently paying, but that will still give them a good profit.

The Company's Trade with the EEC Countries. Historical assessment

The Company started seriously exporting to the EEC about ten years ago. They had two types of products: one technical product, which was a specialised cheese wrapping material, they found there was a demand for it in Holland and Germany. This was for packaging processed cheese, popular in Holland, and so there was a demand. It was a packaging material for which they originally obtained the licence from America, to produce in the UK, and so were able to export it to Holland and Germany. When the licence expired they had the technology and experience to continue supplying that specialised material. Their sales to the EEC started about ten years ago in reasonable figures, and steadily increased. They had established a foothold in

Europe before Britain's entry into the EEC.

The affect of Britain's entry into the EEC on the Company's trade with the EEC countries.

The Company stated that it's difficult to define this - as a Company they used to export ten years ago, and when they were in need of selling capacity, they had bought a new machine, for varying reasons had not as much business as they would like in the UK, they used to think about Europe, which they believe was very much British industry mentality in those days, and may be still now at times. They certainly looked at Europe first. It may have been because of the particular product for packaging cheese, for which they had the exclusivity from America to manufacture, Europe was an obvious place to go and look, Holland, Germany and then France. Once they had got those customers, of course they then kept them. They didn't, when they were again very busy here, abandon them, but they maintained the relationship, and it slowly built up. Then about five years ago they got involved in the production of an entirely different range of materials, they went on to the packaging of sterilisable medical products. These were the early days, when sterilisation of instruments, dressings, etc. was done in each individual hospital. Then the cost of labour, and the cost of equipment, for the sterilisation meant there was a move towards centralisation, and central sterile supply departments were set up in cities serving each group of hospitals. The company got into this in the early days, when they supplied pre-made bags and packaging for these central sterile departments to do the packaging. It has now gone one stage further, in that there are specialised manufacturers who make the dressing, and pack it, and sterilise it, all at the same time, then supply the hospitals, ready to use. This development started in America, and has got to a very sophisticated and advanced stage, where practically

everything is pre-packed, pre-sterilised by the manufacturer. It then came to the UK, because a lot of the big American medical supply manufacturers came to Scotland, England, and Ireland, to set up their European production subsidiaries. The Company got contacts for these, and as this has grown to manufacturing plants in France, Germany, Holland and Denmark; as the company is approved specialist suppliers, they supply them. So that rather as in the cheese wrapping example, but five years later; say in the early 1970's; the Company naturally found their way into the Common Market again, with specialised packaging materials with a big demand.
There was an element of luck there, as the Company sees it, but it was a question of seizing the opportunity. The trend has been that they were big in the UK, their share in the UK is now diminishing, but they are getting very in Europe now.

Has the Company invested directly, by locating a plant in one of the EEC Countries?
They decided, after a lot of thought, that it would be best if they did buy a plant in the EEC. They bought one in Belgium, during 1974, so they've had the plant now nearly two years.

That Company has been trading, as an exporting company from Belgium, for a number of years, so it already has markets, and has in fact even been supplying the U.K. Its main market has been Belgium, Holland, and France, and the objective here was that the company felt it necessary to provide for the

future, and were well aware that the plant in Bristol if of limited size; it is surrounded by houses and other development, and this particular business increasing very rapidly. Other factors were that they have to expand somewhere, so it might as well be in the EEC instead of the fields of Bristol; and a lot of their major customers, particularly in the medical market, were saying that for security of supply the Company must have two plants supplying them. A lot of international companies have it written into their rules that they will not have just one supplier, but two, for varying reasons. So the Company thought that if their customers are going to have two suppliers, they might as well be two of their own Companies, rather than a competitor.

The Plant in Bristol produces - or will produce this year (1976) - about 15,000 tons of packaging material. This should equate to about $6\frac{1}{2}\%$ of the total of the UK market, which gives an idea as to total consumption tonnage per year. They don't deal with these figures very much, because a ton of packaging makes a big difference, and therefore it's safer to deal in area - in square metres, but they have only in the last year or so been using square meters through all their statistics, forced on them by inflation, rather than by the logic of using it as a measurement.

Variation of the Competition Conditions in each of the EEC Countries

It does differ from one country to another in the EEC. As an example; Germany is a very price - conscious market, their representative in Germany finds that when he goes in to buyers, even where the Company has a very strong supply situation, as with medical packaging, the buyers will try to purchase high quality packaging at the price of low quality packaging. The company tries to sell on the quality of material, particularly in the medical area to reduce the risks of contamination, because if they make a major error in medical packaging, they could have a consequential claim for death or severe illness. Price of quality is difficult to get over to Germans, the Company still usually get the business, but they have to argue very hard. That situation is unique in Germany, because in France and Italy, even in Holland, Belgium and certainly Scandinavia, price is not the major factor. It's still there, because cost pressures are such everywhere nowadays, but they are much more interested in service and reliability.

The effect of the elimination of tariffs on the Company's trade with the EEC:

I quote the executive view on that point: "I think that is a very difficult question to answer, I certainly don't think that it has made it any more difficult - it certainly must have made it more easy for us - but as we already have an existing business and momentum, it has probably assisted in making that sort of increase possibly more rapid than it would have done. But I don't think that we could quantify that. It is certainly not as if we could say that it had the immediate effect of increasing our sales by 10% or something like that, I don't think it did, I think that we had the business there anyhow, and this has steadily grown, but it is probably just as much, I think, the fact that we have had a good product to offer. And we have put the effort there."

The expectation of the Company on the increased sales with the EEC in the years 1973 - 1975.

In the years 1973-75 the Company increased its sales to the EEC by 4%, they would hope that they could keep that rate up. If they could go on a steady rate of 5% p.a. in real terms, they would be very pleased with that. This is a target, in real terms, that it is going to become increasingly difficult, and if they could hold 40% of the industry's share of the EEC, they could be doing quite well. Of course this would be on an increasing market. The real growth that they are hoping to get is 5-10% p.a. in the EEC, and they will be very disappointed if they don't get that, because this is where they are looking for their main profitable growth. They have just to stay in the UK to know that the return that they are getting from the more saturated UK market is not very good. So that is really why they are looking at the EEC to their main growth area.

Other factors affected the Company's trade in the EEC after the UK joined the Community:

The force that has worked in their favour since the steady elimination

of tariffs, is the steady devaluation of the £; the reduction of tariffs has been rather lost in this devaluation of sterling. What has been against them is that, by becoming a member of the EEC, these continental converters have looked very closely at the UK market for their products. This has not yet really materialised because, as the Company now see, they are just getting interested in setting themselves up, then the £ devalued rapidly, and they found that, at the moment, the UK market isn't really very attractive.

The Company still feel that although, officially, they are part of the EEC and are on the same footing as continental companies, the fact remains that they are a British Company supplying goods to the Common Market."As a British Company they do suffer from certain disadvantages - one being that of delivery dates, and the British disease, as strikes are known within the EEC. Now this is a very real problem - being an underlying worry on the part of a continental buyer of packaging materials from the UK . . . are they really going to be able to delivery consistently on time?"

<u>The EEC Commission's legislation concerned with the products of the Company, and its effect on the Company's trade:</u>

The greater legislation, in terms of identification of packaging, puts the emphasis clearly on the packaging carrying certain wording. Standardisation of size is another thing which is to their advantage, they have to buy their equipment to cover a whole range of potential sizes,"and therefore there really are going to be benefits in standardisation."Also they are hoping that, for example, on the medical area, there will be greater standardisation of the more stringent side of control. In other words, Scandinavia has already set minimum standards for medical packaging quality and it looks as if the EEC may be adopting this; that would be good for the company because there are a number of packaging companies in

Europe selling at a lower standard than them, and they will be forced to improve. A side effect will be that it will enable the Company to hold the market until the other Companies adapt their products to the standard required.

After Britain joined the EEC and the Company was trading there before, what is the change it has on the Company's attitude:

10 years ago they used to export when they had the spare capacity; even before the U.K. became a member of the EEC, they were committed to supplying the EEC. When they had not sufficient capacity they didn't forget the EEC customers, - there was committment there before the EEC. Since Britain joined the EEC there is an even bigger commitment. They see it as being the future of the company.

As the Company was trading in the EEC before Britain's entry they did not do special efforts after entry. Apart from the business of deliveries, there is a problem in being able to offer a more reliable service, and this a debate that is still going on now; not unconnected with their Belgian plant which they depend on to facilitate delivery. If this plant is able to supply as well, if there are any problems here, they can be sure that there is a source nearer to the customers. So any investment they are going to inject there (in the Belgium plant) will take into consideration that point.

The deviations from the plan the Company put for the EEC Market.

Their plans used to be very accurate before they got involved in the EEC, and the deviation from plan within the UK market was very narrow. They were always within 5% of achieving their plan. They find that with exporting now their deviations are much greater, and it is much more difficult to plan with the same degree of accuracy, for certain volumes of sales.

The reason for that is two-fold; the main one being lack of experience in judging the rate of success they have in penetrating these markets, they were relying upon their customers to develop at a certain rate and were rather optimistic about that rate, because of their lack

of knowledge of those new customers. They are still learning.

The second factor is just the effect of macro economic events that had a great effect over their business.

The effect of the performance of the British economy on the Company's trade with the EEC Countries:

Relatively, their wages costs are very much less controlled than their competitors are, or have been, in the EEC. The Company's wages have been going up very much faster. But on materials costs, competitors import all their own raw material, getting them from the same suppliers as the Company. Apart from the devaluation of the £, they would all be on the same basis for materials, but the Company is paying more for materials than their Competitors. The wages element is getting better at the moment - it was very bade as it was going up so much higher in cost per man.

Assessing the expectation in the Questionnaire:

No. of employees;

They have just over 1000.

The expectation regarding the increase of sales:

The expectation materialised as the company forecasted; that the effect of Great Britain's entry to the EEC would be favourable to their trade. They expected in 1974 that the increase of sales would be in the area of 5% - 10%, and they achieved this target.

The position of the growth of the trade of the company if Great Britain had not joined the community

In answering the questionnair in 1974 the company expected that if Great Britain had not joined the Community, the growth of their trade would not have been the same. What materialised was that the trend of the increase of sales would have picked up irrespective of Britain's entry, although entry had helped the increase of the targets of sales.

The company commented on the deviation between their answer to that question and what took place in real life, that they were wrong in their answer and they would change it now by "Yes" instead of "No".

And the reasons for that - that they were trading before 1973 (the date Great Britain joined the EEC) with the EEC countries and their strategy was to maintain the plans they had for this area.

Other advantages than the elimination of tariffs in the case of the company, which arose from Great Britain's entry into the EEC.

It is the psychological effect, a German, or French, buyer might accept them more easily after Great Britain's entry. 'They still look upon this country as being an island, which is strike prone - and that is still very much the case, however much they are members, and however much they wave their membership cards under the buyers' noses.'

Other obstacles to the entry than the tariffs duty:

a) The national feeling as disadvantage, and as a barrier to the entry, in the case of the company

The company hasn't experienced that sort of barrier, because they (EEC countries) were very international in their attitudes towards the packaging industry. Whether this might have been because the smaller EEC countries were already used to buying from other countries.

b) Taxation

They are assuming, and they are not aware of the details, that for any goods that go into, say, Germany from an EEC member go in on the same basis as goods manufactured there.

The devaluation of the £ and its effect on the company's trade

In the elementary questionnaire the company responded to the question of the devaluation of the £, that it would help increase its trade . . . and what materialised went according to that expectation.

The competition when firms in the EEC countries tried to penetrate the UK market after Great Britain's entry into the Community

In the elementary questionnaire the company expected increased competition from firms in the EEC countries in the UK market, and

they still do. But their expectations haven't been fully met, because of the devaluation of the £, which made the imported prices to the UK market dearer in relation to the UK products.

They expect the competition will take place after the £ gets level with EEC currencies, and they are expecting it to be serious. But at the moment, they think, the Competitors are not penetrating the home market because of the price factor.

If the £ was stable, a number of continental converters would be steadily able to increase their business in the UK.

The Competitors see from their viewpoint; the psychological effect working in sthe reverse; that G.B. now is part of the EEC market, and they should operate in it. They see GB as being a very big potential market, probably the biggest outside West Germany, for packaging and packaging materials; Britain has the particular advantage, that none of the other European countries in the EEC have, in that the purchasing is centralised on a number of major manufacturers. So that by visiting two, or three, central offices, and really getting involved there, they can get a significant volume of the packaging business. The continental style has been very much more narrow;'to say this is our sort of product and we will get as much business as we can for that, - they don't have the broad range that DRG have in the UK.

<u>The position of the shift of trade in favour of the competitors which the company expected in the elementary questionnaire</u>

In 1974, the company expected that there would be a shift in favour of the Competitors from the EEC, but that has not materialised.'If we discount the devaluation of the £, which is to the Company's advantage, and say the £ is much more stable and they are part of the SNAKE, then the Company believes there are two factors: One: that there is a considerable amount of volume of packaging in this country of specifications which the European converters are well able to produce, and therefore they would go for. Two: that the competitors basic cost structure will probably favour us, because they buy the same raw

materials as the Company does, from the same sources, and on a limited survey, which the Company has done, it would appear that their labour costs are - or were - more stable than the Company's, higher, but more stable.'

The problem the Company has is that it gets business from a customer, and has constantly to go back and ask for price increases as it is trying to recover costs. If they were more stable - although higher, this would not arise. The Company has experienced that continental converters are prepared to say what their price will be for 6, or 12 months, and then they will stick to it.

How the company is going to meet the new competition in the UK Market?

In the preliminary Questionnaire the company expected to meet the competition in the UK Market, from firms in the EEC countries, by a more flexible approach towards satisfying urgent deliveries, rectifying technical problems etc. The company commented after two years (in 1976 , the time between the elementary questionnaire and the assessment), that they are not inclined to cut price. If they cut prices it is only in the short term, as a measure to hold business. Their main philosophy is dictated by the pressure which is there - then if they can't hold the business on service which they would like to, with technical support, then they will as quickly as possible develop an alternative material cheaper to the customer and hopefully still making as much profit for them.

The changes of the methods of marketing and distribution in the extended market that the company expected to undertake.

In 1974, the company responded to that question by stating, that they intended to change their methods of marketing and distribution in the extended market. Now they are saying that this reflects on where they are increasingly employing foreign nationals as their representatives, and are therefore locals in the markets in which they are operating. Originally people who were employed as representatives were UK

nationals, who had difficulties with the language etc.' The company thinks in terms of "when in Rome - do as Romans do". We have learnt that lesson.'

The ability of the company to sell the same kinds of products in the EEC Market.

In 1974, the company responded to that question, that they expected to be able to sell the same kind of products in the extended market. Now their comment is that they very much do so. They have found that they, are, or were, offering very advanced products and therefore able to have a ready market, straightaway , for the type of product they have been supplying. More recently, continental converters have started producing the sort of material that the company does. They have caught up with the technology. But the Company is hoping that it can bring out another generation of materials, and keep ahead.

The investment the company intended to do in the EEC market.

When the company was asked in 1974 about its intention to invest directly, by locating a new plant in any of the EEC countries, they responded by the answer "yes". When they were assessed in 1976, their answer was that they were at an advanced planning stage then and, "Yes they did invest."

Economies of scales

The company in 1974 expected to obtain, and was obtaining four forms of economies of scale. In the assessment process, when they were asked if they still obtain these forms of economies of scale, the answers regarding each,were as follows:

Rank 1: Ability to use more specialised and sophisticated equipment

Their answer is that they still retain that form of economy of scale

Rank 2: Longer production runs

Their answer was "Yes", they are still obtaining that form of economy of scale, but it is rather ironic that where they are getting new customers, they are tending to have shorter production runs, because the customers are changing the packaging to a new style, and doing it

gradually. Certainly, on average, they would hope that as they develop into a market that they will get longer and longer production runs.

The machinery, equipment, and production methods, of the company help them to get their forms of economies of scale, because it is flexible enough, in a general purpose term, to do different designs in different colours.

Rank 3: Organisational Economies of Scale i.e. concentrating control of a number of production units within one management frame work

In 1974 the company stated that they experienced that sort of economy of scale - their comment now is that that is still true. The basic plan is that the operation in Belgium, for example, will have its own local management in terms of day to day running of the plant, but marketing, service, and support, will be employed centrally from Bristol. So they are rationalised on that one. They are not going to duplicate all these services.

Rank 4: Ability to use larger plant at lower capital cost

There is no doubt that because of the rapid rise of labour costs, in particular, it is essential to have faster running machines, so output per man hour is as high as possible.

There are other economies of scale which the company, in the preliminary questionnaire, indicated are applicable, but they declined to rank these. These are:

Advantages of Bulk Buying

When the company were asked if they experienced that form of economy of scale, they answered "Yes and No". Through the Group they had a Central Buying Department who endeavour to get maximum discounts. But the problem is that, because of their wide flexible materials, they are not a big buyer in any way, and therefore they

try to go for these discounts - but it does not make very much difference, and the suppliers are very widespread. They have the advantage of not being reliant on one particular supplier, and the disadvantage of not being able to negotiate any discount.

Marketing economies i.e. sharing advertising, promotion and marketing costs

This is debateable, although it can be valid in the sense that the promotion costs which some representatives have can be spread over one area of marketing. An example is that the sales representative in Belgium covers other countries beside Belgium.

Efficiency

1. Improved level of output per man

The company find that that form of efficiency is difficult to obtain. The Company sees it as a very difficult subject which they don't talk about too loudly.

Printing and packaging have very strong Trades Unions, a number of Trades Unions are involved. There is a difference between the Craft Unions and the Non-Craft Unions, and in the UK the company is having considerable problems over obtaining significant improvements in output, without actually having to pay for them.

Therefore, whilst they are being exhorted by the Government to re-invest in new capital etc., they find that they will buy new machines and there will be a lengthy period of negotiation as to the actual premium of running them, and at the end of the day the advantage is not very great. Although they run faster and wider the company is having to pay the operators more to run them, because the unions have the power - almost - to refuse to run that machine until they have negotiated a rate.

There is a crisis of confidence here - a considerable lack of trust. There is the feeling that figures can be used to prove things either way. Relationships are not too good; mainly because there are so many unions. With just one union, maybe, it would be easier.

There are three unions in the Bristol plant, the printers (who are; Craft), and two allied trades unions, who run the coating and finishing machines. And then of course there are in addition the Engineering unions. The Company has a perfect comparison between their plant in Belgium, and the plant in Bristol. The company can't say to the Union chiefs in Bristol do this because it is being done in Belgium. It's very difficult, and very frustrating, and does mean that their advantage here, in terms of investment in equipment, is being blunted for a lot of the time.

Attracting and employing managerial skills

The answer for this form of efficiency, probably, is yes. But their's is not a technilogical industry in the accepted sense, they tend to get peoplecoming towards this industry who are not specialists and not the high-fliers of the chemical industry.

That is the fact of the situation, but within the management structure they have a large number of graduates who often come to the Company by chance, or have been transferred from other parts of the group where they have been employed. So their managerial quality is probably quite high, but it's not from a logical initial route.

FINAL COMMENT OF THE ATTITUDE OF THE COMPANY TOWARDS BRITAIN'S ENTRY INTO THE EEC, IN THE CASE OF THE COMPANY

In 1974, the general comment on the benefits/disadvantages of UK membership, that had been evidenced as far as the company was concerned, was that there was "a significant reduction in the earlier attitude towards the segregating of home and export customers, and real progress towards equal importance being attached to the market as a whole".

When the company was assessed in 1976 their comment was, I quote: "I think the main remark I would make in general terms is that everything seems to happen a lot slower than one would lhave liked, or intends to hope, but one expects that we will become a member of

Europe, and that, theoretically, you have suddenly got the market of 250 million instead of 50 million then surely everything should follow. We haven't really found that - we have found that we have had to gain acceptance in European and EEC areas in just the same way as we have to in the UK, and we have to steadily build confidence with these companies I don't think that being a British manufacturer has any real disadvantages in terms of quality or respect for the product, and the only worry, and it is a big one, on the part of the EEC customers, is the disease of the inability to promise delivery. I know that they make too much of this at times, as I know that other companies are sometime late for various reasons. But the fact remains that there are many major plants that are being drawn from in Denmark, and places like that, that have the materials there on the nail every time when it is required. It just doest not seem to happen here (in the UK) Its rather depressing."

The company's plans and attitudes for its future in the EEC market

I quote:

"Well if we look to the future we have bought a plant in the EEC - on the other side of that bit of water - and we hope by that, we then have the opportunity to expand that definitely. There are two styles of operation. One that tends to go for quality, and is very much charging prices at the higher end of the market. The company that was bought there is a good quality company - very much more used to operating at the sharp and, in more flexible and tight cost controlled operations, which has not been all that profitable in the past, but is an efficient enough operation. So we have the opportunity there of building on that one to develop there, in the knowledge that this plant has probably reached the top in size now, and we have in the back of our minds the quite real worry about the expansion, and also the work practices which have developed here, which may mean that our unit costs in Europe could reach an unreasonable level."

CASE STUDY No. 9

COMPANY : Compair Industrial Ltd.

LOCATION: Slough, Bucks

CONTACT: PETER BONNER, Managing Director.

COMPAIR INDUSTRIAL LTD

BACKGROUND

a) Historical Company Formation

In 1898 a Mr. Harry Skeet Brown and a Mr. Jethro Wade formed a company called Broom & Wade Ltd..

In the same year Mr. William Rearell formed the Rearall Company.

In 1968 Broom & Wade Ltd., merged with Holman Brothers to form the International Compressed Air Corporation. In 1969 Rearell Company joined the Group. In 1973 Broom Wade & Rearell were merged to form Compair Industrial Ltd., becoming the largest U.K. compressed air equipment manufacturer and ranking sixth in the world.

b) Location & Production Ranges

Compair Industrial Limited has three manufacturing plants:

1. The Broom Wade Works, High Wycombe, Buckinghamshire.

This work produces the Broom Wade range of rotary, screw and reciprocating air compressors. These are available in portable units for paint spraying through to complete installations to provide air power for a major manufacturing plant.

2. The Danen Works at Ystalyfera, S. Wales

This produces a range of over 350 power tools under the Broom Wade name, consisting of Drills, tappers, grinders, sanders, screwdrivers etc.

3. Rearell Works, Ipswich, Suffolk.

This factory produces the Rearell range of centrifugal, marine reciprocating, industrial reciprocating and small vane machines. It also produces electro-hydraulic automatic control systems.

Product Usage

Broomwade & Rearell air compressors and pneumatic tools can be found in almost every industry throughout the world. The use of compressed air power is best explained in that in a large number of industries it plays a vital role for example in the Brewing,

Chemical processing, Oil refining, vehicle manufacture, food processing, aircraft manufacture, steelmaking, sewage plant, newspapers, foundries, shipping, garage and domestic equipment manufacturers.

It should be noted the range varies from, for example, air compressors found on garage forecourts at £200 to air compressors of a highly technical nature costing over £250,000 used in heavy industry.

Competitors

By the nature of the business which is highly diverse in the last few years many competitors have gone out of business. In Europe the company has to compete with manufacturing companies making compressors in France, Italy, Belgium, Sweden & Germany. In Europe Compair are Number 2. However if you take the nine Common Market Countries Compair in Number 1."In certain areas we are stronger than our competitorsiis the Common Market in other areas the reverse is true. Our main competitors are American and the Big Three have turnovers of 600million, 500 million, 350 million in Europe. We believe that size is of crucial importance in that to benefit from Research & Development you need to be well established particularly in the Common Market."

Overseas Business

Historically the company had exported for many years back to the days of the Empire. This had continued with trading to the Commonwealth. It was noticed that many of the old commonwealth markets were being lost due to change in the countries policy. For example the trend for market to become more industrialized had resulted in the country creating its own industry. In turn even supplying components for local assembly was not possible as the country itself had to produce its own components.

This change is not supplying or even part supplying traditional markets had meant that the company needed to build up its business

business in more industrialized Nations such as North America, Japan & Europe.

In 1965 a decision was taken that regardless of whether Britain joined the Common Market the company needed to be in Europe. A company was formed in Germany in 1965 and a further one was formed in France in 1972.

Pre-entry Policies that have been planned or implemented

As stated earlier the company began with three ventures in three EEC countries. These comprised of a manufacturing plant, in France and Germany. In Belgium they operated a sales organization. The decision to go into these three markets was based on the research findings of consultants used, who "looked at our competitors in each country and this, with a lot more information could be summed up as being needed to be in key competitive markets because if we failed to be competitive in these markets we would not exist anywhere." The other market proposed was Italy, but due to the state of the Italian economy the decision to go into this market has been deferred.

Tariffs, Technical and other Trade Barriers

A) Non-European Barriers

In Brazil for example they had an embargo due to being required to put 100% deposit down on all imports. In turn Compair cannot get this deposit back until one year later. No interest is payed to cover inflation or use of capital. This is the type of export situation we can do without.

Even forming companies in these type of markets are problamatic in that a high investment can only be covered if a volume market exists. "For example to have five car manufacturers in one country when the country can sustain only two." Tariffs - in the

company's view - should be applied more effectively to overcome this type of problem which in turn would remove this wastage that effects the industry.

B) Trade Barriers in the EEC

1. TARIFFS

"The elimination of tariffs in the Common Market from 1973 - 1976 in the range of 12% has helped us to improve our market share."

2. TECHNICAL

Compair considers that perhaps more important than the custom duties, is the technical tariff which operates on design specification. They work to the British Standard Specification, the French and German to there own specifications. These key markets are able to create barriers by raising the specifications above the European Standard "which in itself was a way of keeping countries out of the Common Market."

It is possible to overcome these problems for example the parts which require special specifications in Germany can be produced locally and certified in that country. Having a German company overcomes this problem, although it was not the main reason why they formed a German company. This way they found that a certain type of compressor could be produced cheaper in Germany and a good market existed.

3. Other Barrier to Entry

Finding suitable Network of Distributors:-

Compair believes that one of the difficulties is to ensure that in setting up a distribution network for products, is the ability of the distributor; in commercial terms; to grow with the volume of turnover so as to develop fully the opportunities. It can be that the network can initially deal with the range but is not prepared or unable to finance further expansion. For example in France it was necessary to operate through a network of various distributors each having certain territories.

This is an obstacle to entry as it is difficult to find a good distributor, and just as important, one that is accepted by local people.

Compair back up their distributors by sending specialists to offer help when the distributor gets into difficulty which he himself can't solve.

The effects of the Devaluation of the £

They don't believe that the tightening up of the economy during the period they have been in the EEC has made much difference to their trade. "In fact in Italy where the "lira" is weak people having been investing the money into compressors which will hold there value rather than lira."

Therefore the point that because of the devaluation of the pound products should be more competitive as it is cheaper, this has not happened because if they were not selling in quantity in the first instance to Germany since the devaluation they would not be selling any more. This is because of the decrease in demand due to the economic situation. We quote "it is true if the economic situation of a depressed economy and inflation had not happened we would have benefited by the devaluation of sterling."

Capacity in Use

Two years ago their capacity was fully utilized; to date they have spare capacity. The company believes this spare capacity can be utilized when the economic performance of the EEC countries improve. We quote: "In fact we have invested for the future so that when the boom comes we will have increased capacity to meet it."

The Competition the company is facing following the U.K. entry into the Common Market

(a) In the EEC Market(s)

The company while being No. 1 in the EEC has been facing.

competition in their home market from the American subsidiary companies in the EEC and also from a Swedish company which has factories in Belgium, France and Italy. The bulk of the Swedish Companies' export to the U.K. are from the EEC factories. Another American company operating from Italy and the U.K. has captured a substantial share of the Italian market and is giving a competitive time as they are able to produce cheaper and in large volume than CompAir.

The American company has altered its thinking, and invested in the U.K. over £20 million in five years, in the belief that a market of 250 million people offers an excellent challenge. Compair believes that before Britain's entry into the EEC, the Americans would have not invested in a second plant.

(b) <u>In other Markets</u>

As the Americans are investing in Europe. CompAir is investing in South America, Africa & Iran. CompAir states that it has to invest in those markets otherwise it could not remain in them. "This is because these countries becoming more nationalistic i.e. wanting to build factories and create jobs and become more industrialised." CompAir think that this policy is wrong in particular for small nations of one million people and quoted examples in the Middle East. CompAir recount that it was asked by one of these small countries to advise in building a plant there, and pointed out that in an intensive capital industry, that calls for regular heavy investment, unless the potential volume was there it was cheaper to buy from outside. This advice was not taken up.

<u>R & D and the company</u>

The company states it has a substantial investment in R & D. In fact the company operates two R & D units, which are used only for the company. The company carries out a highly comprehensible system of testing equipment before it goes into general use. This ensures, that in usage amendments are kept to a minimum.

Assessment to the company's expectation of increased trade due to tariffs elimination:

The company estimated in the primary survey that they expect increase in their sales volume in the range of 16-20% due to the tariffs elimination, their comments after two years of the initial survey that it is very difficult to define because they have been increasing their sales efforts into the market. Likewise they have increased their investment and they could not say that it is a result of the individual elimination of tariff, or it is a result of their increased efforts and investment.

Regarding the increases they experienced in their sales, their comment was "if you take the trade cycles this is more noticeable, than noticing the effect of the entry into the Common market. Britain entered the Common Market in 1973 when there was a boom, we can not attribute the increase in sale tothe entry but to the effect of the trade cycle." In 1973 and 1974 they could not meet the orders and the delivery were taking 18 months. All that happened when the entry came into being, the company could not meet the demand. So any benefits they could have had, they lost because they could not meet the demand. They could not get the supply of motors, the supply of iron. "Now what is happening is that the trade cycle is in reverse and every body is fighting for what business there is. So again you cannot know what the effect of the elimination of tariffs would be. " However the company believes that elimination of tariffs made it easier for them to get into the market, but they cannot quantify its effect. They are certain that penetration is better, than if their prices are 10% higher (the 10% being the tariff that was then due on their products).

The advantages the company experience as a result of Britain's entry into the EEC:

The benefits exists in terms of the legislation, the European thinking they adapt and the encouragement they receive. Although the company thinks world wide; they think specifically

European;"that is because Europe is the most sophisticated market and the European standards are higher than the American standards."In their type of equipment the legislation and the social pressures which is on them to produce a compressor with low noise, is emmense and they are having to compete with that by designing the top specifications to meet the requirement in Germany or anywhere in Europe or the world.

Expectation of the competition in the U.K. market

In 1974 the company stated that the trend will be in favour of the competitors due to the British entry into the community.
And this would be combated by:-
cutting prices; improving their products; improving production methods.
In 1976 the company stated that regardless of the common market any reputable company had to undertake these steps so as not to be static. The company stated that as far as the Common Market was concerned the main factor was competition had become harder, resulting in the company having to keep ahead of its competitors by constantly re-checking the situation using the factors previously stated.

Other measures taken by the company in facing up to the Entry

Compair has a German company with three manufacturing plants. These plants and products were marketed under Trade Names. This has been changed to create a corporate identity by not only changing for example the German companys' name but also linking in to the group the compair name on Brand Names used throughout Europe. This gives a much stronger, unified approach rather than as previously been fragmatic.

Common Market Operation

Currently the company operates via the small companies in France and Germany which in turn operate sales force but does not have a

distribution network.

Compair have sent over their top U.K. marketing people to advise on increasing sales and distribution by setting up a proper network of distributors.

This is being concentrated upon the main markets of Germany and Italy. Currently the company is investing in purchasing another French company and extending the premises of the German company. Likewise investing in executives able to develop the Marketing Function.

The company as stated earlier have had to carry out major and some minor alterations to their products by producing machinery that meets the technical specifications relating to noise levels.

The restructure of the company organisation to meet the new era of the E.E.C.

Prior to Britains entry to the E.E.C., the company reorganised its factory operations both in the U.K. and Europe. In the case of U.K. the two manufacturers operate their own U.K. Sales force and have Area Managers covering Europe. The company policy towards its sister companies in France, Germany and Belgium is to treat them as if they were distributors. Prior to this change the companies were treated as subsidiaries. Now it is that each Managing Director runs his own company concentrating on selling and marketing leaving the U.K. management to concentrate on the manufacturing. This was the first major change and was based on the need to meet the challenge of Britains entry into the Common Market. The second was to back up each Managing Director by having experts both in the technical and management fields regularly travelling to check that each company was operating to plan.

Economies of scale:

The company achieved the economies of scale mentioned in the elementary questionnaire. They mentioned that to rank it in

order of importance was difficult because it is overlapping. They stated that the reorganisation they have undertaken was aiming to achieve economies of scale. They had factories in Europe who make compressors similar to the types they are producing in the U.K., to achieve the economies of mass production and greater specialisation of labour, it was necessary to stop duplication of production in the U.K. and Europe. These changes gave them a better range of equipment without using any extra machines or factories. The French company and the German company each now have what they specialise in, while the Belgium company is basically a selling company with a small amount of local assembly.

Efficiency

Raising the output per man is always a target the company has tried to achieve. The ratio of sales to total manpower is satisfactory.

Regarding the managerial skill, the company believes it has a satisfactory record. The managing director of Compair(Mr. Peter Bonner, the man whom I interviewed) recalled that he joined Compair not because it offered the most money, but because the company has got a very good reputation in its attitude and plans towards the market 'user' was the best he has heard among a large number of companies. The company is thinking more constructively and longer ahead and taking positive action than competitors. He found a job satisfaction and making progress rewarding. The company is not just satisfied in making a good profit, it is to have a share in the world market place and it has to have the right products to achieve this, it is planning ten years ahead. These motives and objectives attract good employees.

The company recruited some new directors and managers (some of them have got independent means and they have not got to work) but they joined the company because they like to be involved in the company. They feel the contributions they make in the company

has enabled the company to become a major presence in the world.

How the company sums up their performance in relation to Britain's entry into the EEC

They see that after Britain's entry into the Common Market, they make their profits easier than before the entry when they were dealing with the old Commo n Wealth, the African countries and the Middle East. With the political changes that have taken place in the world, they lost the preferences in those areas which previously had helped to keep out the competitors. So the EEC as the good and the natural alternative, has increased their efficiency and improved their methods of production.

CASE STUDY No. 10

Company:	Ranco Controls	
Location:	Plymouth, Devon.	
Contacts:	W. A. Chapman	Managing Director
	A. G. Powell	General Sales Manager
	Stuart Allen	Euro-Market Manager Heating
	F. W. Lauder	Euro-Market Manager Automotive

Background

Ranco, an American owned company situated in Plymouth, are manufacturers of electronic and thermostat controls used in the refrigeration equipment and allied industries. Currently their European organisation is undergoing a major re-organisation due partly as a result of the findings of a McKinsey report.

Organisation Structure

Infra-structures

(A) The World.

Ranco operates on the basis of profit centres with clearly defined marketing responsibilities. These are

(1) North America

(2) Europe

(3) Third World countries.

In the case of the third world countries, the marketing function is carried out from the USA. The manufacturing function is not governed by such restraints. For example, products manufactured in the UK company are being marketed by Ranco USA for the USA refrigeration market.

(B) European structure

Ranco UK is the second largest after the USA. It is in fact the largest in Europe. The UK is in fact the headquarters for the European Profit Centre. Manufacturing in Europe is carried out in UK, Germany

and Italy. Confidentially Ranco stated the Italian company is being closed down due to lack of profitability.

It should be noted that a sales branch is operated in France. Ranco believe that with the closure of the Italian operation, its UK factory will increase its exports due to having a larger range of products available.

Market Structure

Ranco think in terms of market segments rather than product splits, and they divide their four market segments as follows:

1. Automotive
2. Domestic heating
3. Household refrigeration
4. Commercial refrigeration and air-conditioning.

Market Structure (Product Ranges)

Sales and Marketing Organisation:

Ranco UK exports to 72 countries. These are made up of

(a) Own companies (with marketing role);
(b) Associate companies;
(c) agents,
(d) Countries which Ranco UK are responsible for the sales and marketing functions.

In the case of (a), Ranco through its other companies such as France,

Germany, USA and Canada carry out the marketing function.
In the case of (b), associate companies, these are Spain and Australia.
In the case of (c) these are various in which Ranco appoints agents.
In the case of (d) Ranco UK carries out the marketing/sales function from Plymouth for the Scandinavian, Middle East, and several African markets.

The structure to carry out the above is currently being drawn up and will be operated by a Marketing Director with four Market Managers covering the four sectors. The sales side will consist of one Export Manager, two Sales Engineers, one Sales Correspondent, a Sales Clerk, plus the Shipping and Despatch Department.

The Market Manager is responsible for the profitability of his segment, and his job description is a fairly text book marketing job description.

Overseas Competitors

Ranco exports nearly 50% of its total production of which a substantial amount is for the household refrigeration market. In the refrigeration sector the main competitors are Danish and French. Other competitors in this sector are German, East Bloc (or Comicon countries) and Japan. Its main competitors on heating controls are East and West Germany.

Philosophy on Profitability

At the moment Ranco find their export business more profitable than their UK business. They are strictly interested in profit rather than mere volume, and see this as a way of protecting the viability of their company and building for the future. Thus in some markets where they have been subjected to Eastern bloc countries' competition at 'dumping prices' they

have been prepared to maintain their prices even at the expense of losing some of their volume. In some cases, where Ranco had a high production cost, they preferred to remain as the second small supplier as a way of "keeping their foot in the door", rather than going out to be the main supplier. Again, with profitability in mind, they usually preferred to be one of two suppliers rather than a single supplier. Being a single supplier led to responsibilities and commitments which were not always profitable. By being just one of two suppliers Ranco could be much more flexible in general, and in particular have greater price flexibility. Generally their pricing policy was based on what the market would bear. They are tight on credit control, use E.C.D.G. and they turn their capital over quickly.

Technical Standards

Ranco feel certain that their organisation as part of Europe would lead to an improvement in standards generally. By having to think in European terms, Ranco have sharpened themselves up considerably, and have had to produce products up to the standards of the market demanding the highest technical standard of product. Having developed a better product (which is not necessarily more expensive to produce) they then have a competitive advantage in the UK market as well.

Personnel

Ranco find it difficult to get the right calibre of export people and in particular to get people who think in a fully European sense.

Customers/Market Opportunities

They sell mainly to original equipment manufacturers (and thus their end

customer depends on where the D.E.M. sells). They also sell to wholesalers and distributors, which is a very fragmented market, but which has a higher profit percentage. The wholesalers sell to small manufacturers, builders merchants, etc. (Ranco have established a separate company to sell replacement equipment to the electricity boards, etc.)

At the moment their main customers are in the Scandinavian countries, although Ranco see the Middle East developing quickly, particularly Turkey, Iran, Syria and Iraq.

Tailoring of Products for Export

Nearly all their equipment is produced to a specification and is nearly always different for different customers. In this sense there are no totally separate products for export but there are certainly different variants. There is relatively little scope for totally separate products, since refrigeration technology is fairly international.

Forecasting

Attempting to forecast is difficult because these are based on the purchasers' requirements which are handed onto the company by the salesman. Experience shows that these are optimistic as are often based on the future general economic situation of the country as a whole.

A new system has been brought into operation by the marketing executives who have devised a system to collect the information from the Sales Managers. This system is based on (1) Customers, (2) Area (country) and (3) the Product/Market segment.

As the Marketing Department is responsible for producing forecasts, it is with the other questions which the Sales Management have to obtain to operate a more accurate system than previously. The other questions being: potential sales against performance on a month by month comparison against last year and the previous years sales.

Demand

The company is facing a rapid increase in demand three months ahead of production (December orders for March and so on).

The reason for the upsurge in demand (which is contrary to the economic situation) is due to the reduction in the size of inventory which the customers now hold due to the impact of inflation.

Another reason is that customers have restricted credit and in turn have a high cash flow. In turn this has been invested in new stock (demand) on the company as a basis of combating the effects of Sterling. In turn Ranco hopes the demand is not excessive and in particular can be absorbed in the market.

The European Experience

The market for Europe has been affected so much by the value of the £. The company experienced a "buying money market" rather than a "Ranco Product Market", i.e. the value of the £ and the expectation of their customers of the future value of the £ does affect the size of the orders they receive. These transactions determine the volume of the sales.

The company is looking for substantial opportunitys in Europe based on the results of its experience in U.K. (15 years) and the U.S.A. (50 years).

The refrigeration market is Rancos main market although its trying to diversify into the heating market. This has already proved to be succesful in the U.K. but in the rest of Europe the Germans are market leaders.

Advantages and Disadvantages the company possesses in relation to their operations in Europe

Being a U.K. base manufacturer, they design the products according to the requirements of the U.K. market which is different from the European Market, is one of the disadvantages the company faces. Another disadvantage they face is that the U.K. market is interested in the low cost rather than the sophisticated quality. They recall an example of a British firm which refused to accept a new control system which works better than the old one because the former is slightly more expensive than the latter. This affects the R. & D. programmes and leaves them behind their European Competitors who always market to a more advanced specification, and hence it affects the final products which are not the high quality in relation with the European competitors' products.

The advantage Ranco claims is that the high standard of engineering produces an excellant standard of product. But as stated above this is lost by not producing a product to a more advanced specification for the European Market.

In Answering the elementary questionnaire the Ranco stated

- the company employes over 2,000 employees
- they traded before 1st January, 1973 in the EEC market (the original 6 EEC countries)
- They expect the affect on their trade would be favourable after the U.K. had joined the community
- their products did carry fully import duty in the original EEC countries prior to the U.K. entry
- they expect that the effect of tariff reduction on the sales volume would be an increase of 12%.
- The devaluation of the £ helped the trade significantly
- They expect increased competition in the U.K. from firms in the EEC countries who would expand their trade to the U.K.
- They intend to meet the competion in the U.K. from EEC firms by :-
    a) improving their products
    b) improving their service after sales
    c) cutting prices
    d) speeding the delivery time
- When they have been asked if they are able to sell the same kind of products in the extended markets they stated that they have to modify it to meet the market requirements but the changes would be minor
- If the situation demanded, they intend to invest directly in any of the EEC countries.

- Starting Dates in Europe:-

In addition to the new UK plant in Scotland (1951), the EEC plants started as follows

Italy 1956

Germany 1957

They also built a plant in Spain in 1963.

The re-organisational structure which took place because of the EEC Market

They consulted a consultant (McKenzie) for re-organising the European operation and before he submitted his recommendations the organisation for their European operation was as follows:-

a) U.K. organisation and the sister companies in France, Germany and Italy were working as separate identities.

b) Each organisation in Europe were judged on their own performance. (they used to call it the little kingdoms.)

c) Every European organisation was a profit centre on its own merits.

d) What arises from this situation are the following:-

- duplications in the research centres
- the affliated companies were competing with each other
- there were no unifications in the planning and the policies regarding sales, prices and purchasing.

The outcome of the recommendations of the McKenzie report can be summarised in the following:-

Firstly centralisation. The European operations became one identity and it has been treated as a profit centre under the name "Ranco Controls Europe".

Secondly Re-organisation of the responsibilities and the structure of the new European unit which serves Europe as a whole. The chart in the following page indicates the re-organisational structure.

As the chart indicates:-

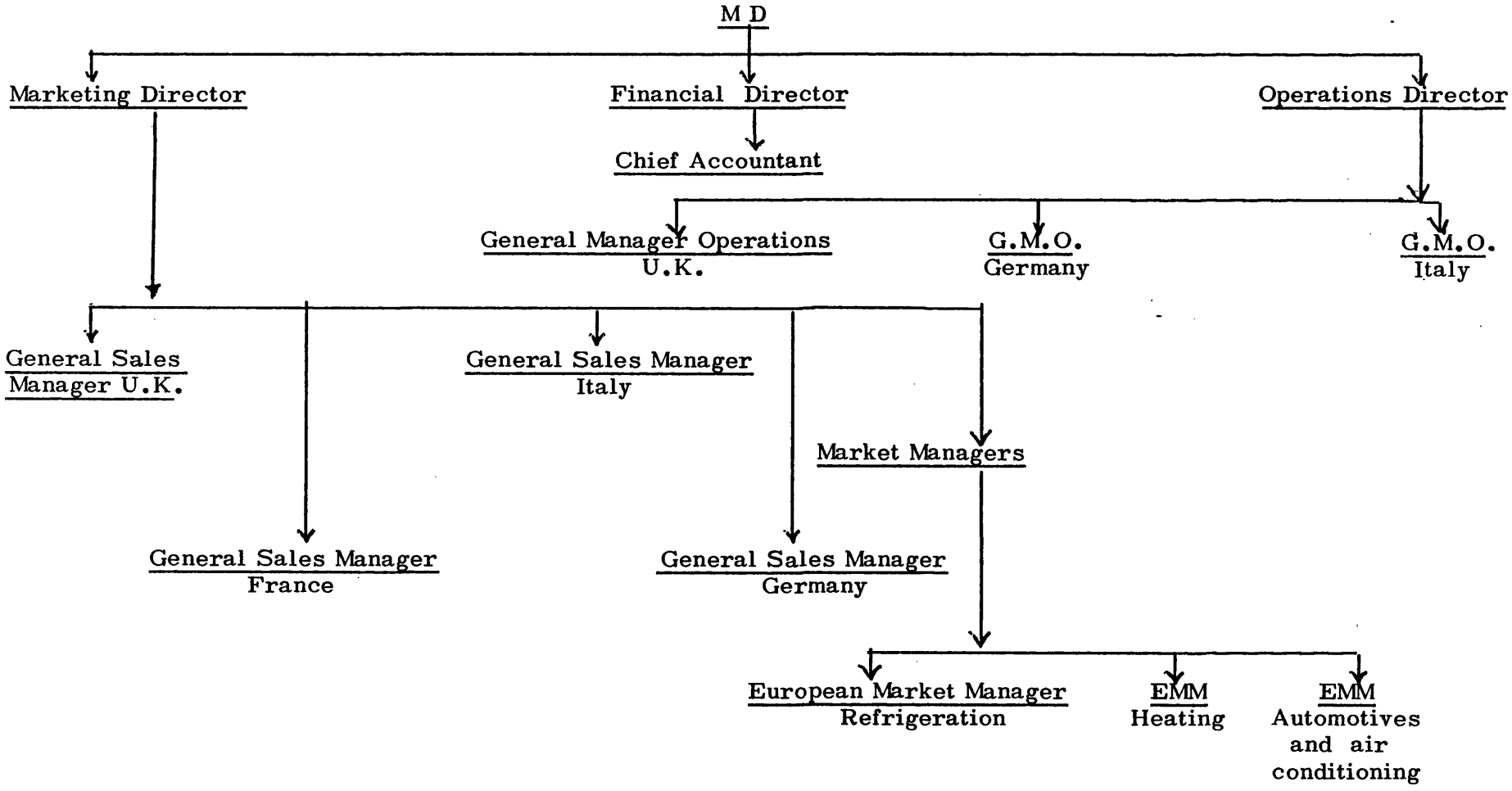
- The Managing Director is responsible for the total European operations and its performance

- There are three main functions Directors responsible to the Managing Director:-

  a) Marketing Director who is responsible for
  - 4 General Sales Managers, UK, France, Italy, and Germany. (Area responsibility)
  - 3 Marketing Managers for the 3 main production segments (Heating, Refrigeration and Automotives) (commodity responsibility)

  b) Operations Director responsible for 3 General Operation Managers in the U.K., Germany and Italy.

RANCO CONTROLS EUROPE



c) Finance Director responsible to him a Chief Accountant for Europe.

- Reg arding the marketing and sales responsibilities it has been divided by areas in relation to sales and by commodities in relation to marketing.

  The two functions were grouped under one directorship because of the inter-relation between each.

Thirdly Pricing Policy

a) Prior to the re-organisation Before the re-organisation of the European market pricing policy was decided and executed in the firm level in each unit in the U.K., France, Germany and Italy.

The prices after the profit margin were decided by the Unit Executive and were subject to adjustment according to the rates of exchange.

The Independent Units in the EEC countries reached a stage in the pricing policy where they were cutting prices against each other, the only considerations they had then were:-

- How much the market could bear
- The judgement of the parent company in America of their performance.

(b) After the re-organisation

After the re-organisation of the European operations. The structure of the pricing policy were as follows:-

- Centralisation of the pricing policy for the whole European Market.
- Prices are built in the formula (cost + the margin the market can bear)
- For the contracted sales of order with certain specifications the formula is working the other way around according to the price agreed in the contract.
- Their pricing policy are aimed mainly to the manufacturers who use their controls components so they have printed price lists with the discount allowed
- Retailers are not a target, so they have not a price policy for them. In their case, the retailers are the wholesalers for whom they prepare a price list, taking into considerations:-

    a) The Economic condition
    b) The state of competition

- They do have about (40% margin + 8 -10% per cent on the turnover), but this margin differs according to the area they export to and regarding the length of the contracts, yearly, six months or three months.

Fourthly The Harmonisation Policy regarding export sales:-

Each sister company is responsible for a specific export area:-

U.K. is responsible for the following markets:-

- The Scandinavian countries.
- Portugal.
- The Middle East and Turkey.
- Africa.

France looks after the export in :-

- Latin America.
- Far East.
- The Netherlands.
- Norway.

France Organisation is merely a sales agency orientation.

Germany Responsible for the following export areas:-

- Australia.
- Switzerland.
- Holland.
- Belgium.
- East Europe.

Italy Takes the responsibility for export sales in these areas:-

- Jugoslavia
- Greece

and of course each organisation take care of their domestic market. It is a matter of a grant, that U.K. organisation has the biggest share in the Export Market.

Disadvantages of the re-organisational structure

- More responsibilities for the man on the top.

- Nationalist feelings e.g. according to the re-organisation of the Marketing responsibilities they appointed an Italian as a "Market Director" there is resentment working for an Italian.

- The performance of the whole Europe, goes to the Parent Company as one identity so the weak performance in France does affect the man on top.

The Features of the Preparations for the EEC Markets

- The market is treated as one identity.

- Co-ordination on sales targets and prices.

- Opportunities created by the re-organisation for comparisons between the whole performance of the sister's companies.

- Organised and planned visits to customers

- Exchanges of experiences, reports and forecasts regarding:-

  i) Pricing
  ii) Modifications of the products
  iii) Cost of production programmes

- The co-operation in Productions solutions.

- Shifting of managers and staff from job to another and from one company to another, e.g.

  i) The chief engineer in Germany is an Italian.
  ii) Sales Managers became Marketing Managers.
  iii) The Marketing Director is an Italian.

- Assessment of the performance became centralised.

Some Features of their operations

1. The sales representations are still behind in the knowledge of the products, and that demonstrates a difficulty in promoting the sales. They have a training programme to overcome this difficulty based on mutual exchange of the knowledge between the production and the sales work forces.

2. The potential for new customers are limited to the number of manufacturers using their control products.

3. Although they are "profit centres" (I quote one of the Marketing Managers, we are here for the money, business means making money), they do care about volume and the domination of the market.

4. In reply to the question of Dumping that they may face, they are prepared to lose volume in order to keep their prices, but that depends on the relations they have with their customers in providing the customers with the right products in the right time with the right price.

They are not very concerned with dumping problems, because they do face it with flexible decisions and increased services to the customers.

5. Their plants are considered to be labour intensive unit, they are planning to absorb that problem by:

   a) Diversifications plans.
   b) Changing the range of domestic refrigeration.
   c) Increasing the automotive range of production.
   d) Standardisation of the products.
   e) Better organisation which usually takes time to come about.

6. They are behind in the forecasting methods, and that features difficulties in planning especially on the marketing areas.

7. R & D are the responsibility of three organisations:-

   a) U.K. - Concerned with the Heating Products and automotives.
   b) Germany concerned with the Domestic and the commercial refrigerations.
   c) The Parent company in America undertake the R & D for all the products.

8. Special features.

- They need no licences to work within the extended market.
- They have patent rights.
- They enjoy a monopolistic condition in the U.K. market.
- Past experience helped them in their performance.

OPERATION IN EUROPE (INCLUDING THE EEC MARKET)

A. Refrigeration Products and the EEC

1. The structure of the European market regarding the refrigeration is as follows:-
   - U.K. Plant.
   - German Plant.
   - French sales office.
   - Italian works.
   - Associated company in Spain.

2. The main competitors in Europe is a Danish firm. They cannot face the competition in Eastern Europe because of the low prices there.

   The features of the competition they face are as follows:-
   - The competitors sell in unrealistic prices.
   - The company is losing volume accordingly.
   - However they still dominate the refrigeration market.
   - Regarding the commercial refrigeration they are No. 2 in Europe.
   - They do not expect much of the membership of the EEC regarding the commercial refrigeration which have the absorption system.

- They expected and they achieved increased sales in the line of refrigeration which works on the compressor system (which is more efficient).
- They offsetted the high labour costs of the sister company in Germany.

3. There were deviations regarding the expectations in relation to their performance in the EEC market. As the last 6 months of 1975 produced a completely different picture than they thought it would be because of the closure of their plant in Italy (it has been opened again from the beginning of January, 1976. The reason for the closure was the overmanning they faced and the labour unrest, due to their redundancy plans.)

4. The economies of scales the company enjoys or expected to obtain in the refrigeration products are indicated in the table below and ranked in accordance with its importance:-

Forms of Economies of Scales	Applicable	Rank
Organisation economies of Scales i.e. Concentrating control of a number of productive units within one management framework	/	1
Longer production runs	/	2

Forms of Economies of Scales	Applicable	Rank
Ability to achieve technical economies by linking together processes in one production unit	/	3
Advantages of bulk - buying and the centralisation of copper buying	/	4
Marketing economies i.e. sharing advertising, promotions etc.	/	5
Better distribution facilities	/	6
Greater integration of different personnel (specially in Germany and France)	/	7

(B) The automotive products and the EEC

The company believes thatthere is little point in discussing the affect of Britains entry into the EEC on their performance in relation to their automotive activities.

The reason they stated are:-

a) Ranco has alwaysbeen a multi-national company spreading their manufacturing throughout Europe.

b) The automotive industry, and like many other industrial operations, has also historically an international image.

c) Whilst Britains entry into the EEC has made their dealing with Europe somewhat easier, the results would have been the same, had Britain not joined the community.

(C) The heating products and the EEC

- Heating market is good and meets the company's expectations.
- The electric cookers components have a bad market because:-
  a) the company's products are over priced.
  b) they are facing a severe competition from one of the leading firms (T.I. Group).
- They expected increase in sales volume after Britains entry into the EEC but their expectations have not come about because of the differences in the technical quality, and the impartial and unfair trade in France and Germany (buy French and buy German).
- They design their own range for the U.K. Market.
- The bad organisation they have, affected their performance. last year (1975), they re-organised their products in Europe.
- The main products they have now have been standardised according to the requirement of the markets, involved (W. Germany, France plus the British Standard). This was expensive and tiresome process.
- Their main competitor in Europe especially in Germany is "Weter Herter".
- The competition they face is stiff and formidable regarding price and quality.
- The competition in the other direction (in the U.K. market from European firms), been tried by "EGO", a German firm, but they have not the success they expected.
- The devaluation of the £ helped their export to the Scandinavian countries and to Germany.

- Due to the McKenzey report, the heating operations have been reorganized according to the following:-
  - i Central organisations for the manufacturing process, which helped them in minimizing the cost and meeting the delivery requirements anywhere.
  - ii The re-structure of the organisation.
  - iii Awareness of the opportunities, by the co-ordination they have, now between them and their European Sisters.
  - iv Pricing policy are known and straight, for all the sister companies in Europe (before the reorganisation the affliated companies were competing with each other (price wise) in a devious way.
- The results of their performance in 1973-1974 were as follows:-
  - increased sales to Germany and France.
  - R & D is developing and for the first time they are feeding it back to their Parent Company in the U.S.A.
  - Every item they manufacture is for industrial use and that cuts their wholesalers and advertising costs.
- The economies of scale they expect to obtain in the heating operations, ranked according to the significance they attached to it in their case:-
  1. Organisational economies of scale i.e. concentrating controls of a number of production units within one management framework.
  2. Larger production runs.

3. Ability to achieve technical economies by linking together processes in one production unit.
4. Also they expect:-
    a. Marketing economies i.e. sharing promotion and marketing costs.
    b. Greater integration of different personnel (especially in Germany and France).
5. Advantages of bulk buying and economies of purchasing power over their copper suppliers due to the policy of centralised purchasing.
6. The use of high capacity specialised and larger units of machinery and capital equipments.
7. Spreading initial costs in the case of new products.
8. Economies attributable to learning and training.
9. Economies in sharing the promotion and distribution costs.
10. Economies due to the transportation of a number of processes simultaneously.
11. Economies of scale in marketing costs through the confidence of customers and through selling in bulk to individual customers.
12. Economies of finance due to the expected increase in profits and hence more retained profits.
13. Economies due to the re-organisation of management:-
    a) employing more Specialists.
    b) the less than proportion demand for decision making although, they also expect diseconomies in that concern because the new organisation may change the motivation of managers.

14. Advantages of obtaining information more easily, specially they are introducing a computer system which will work in a European base.

AUXILIARY POINTS

A. Profitability -heating Their profitability is satisfactory and its volume above the level achieved by their competitors. Refrigerations not satisfactory because of the severe competition they face.

B. Marketing other products They do not market other products other than theirs, they tried it once and they failed regarding the refrigeration products.

C. Modifications of the products They tried to modify their products in the heating side, by introducing a regulator for the indoor central heating, but they failed.

D. Looking ahead

- One of their potential activities is to engage in production operations, for the U.S. market, because of their relatively reduced costs.
- They have now spare capacity, after using it fully, they have a plan for a new plant.

CASE STUDY No. 11

COMPANY: International Rectifier

LOCATION: Oxted, Surrey

CONTACT: H.C. WALFORD, General Manager.
D.R. DANIEL, General Sales Manager.

International Rectifier was formed in the U.S.A. in 1947, to manufacture selenium rectifier assemblies. The owners of the company, who came from Eastern Europe, had the foresight, at that stage, to incorporate the word "International" in the company's title. This foresight, and their ambitions, have been proved, in that IR products are now manufactured world wide. Main manufacturing plants are located at El Segundo, California, U.S.A.; Oxted, U.K.; Turin, Italy; and Tokyo, Japan. Satellite semi-conductor manufacturing and assembly plants exist in Mexico, Canada, N. Ireland, India, Singapore, Taiwan and elsewhere. The total sales outlets for International Rectifier products, world wide, are in excess of 100.

The European joint venture, International Rectifier Company is 50% owned by International Rectifier Corporation and 50% by Thorn Electrical Industries, of London. IR Sales are of the order of £30m per annum. Thorn is well known for its domestic and lighting products with assets exceeding £200m, it operates 80 major factories, and employs approximately 85,000 people. The main European centre is IRESA Brussels, which is a duty free warehousing and sales operation, with reponsibility for marketing, except for Germany, France, Italy and the U.K. The subsidiaries in Italy and the U.K. are responsible for their own territories, and have their own manufacturing facilities at Turin and Oxted. The latter has a satellite plant at Newry, in N. Ireland.

The more than 60 sales outlets for IR products in Europe are via its own sales office, and via distributors and agents.

The availability of International Rectifier products, on an International basis, is a strong bargaining feature with equipment manufacturers producing for export markets.

The Company's Main activity

The company's products are power semi conductors and what is involved with them.

The semi conductor is a piece of technology, made from selican. The main product is a diode, in general sizes with the selican inside it , the semi conductor. It conducts current in one direction and not the other.

The rectifier is one diode or a number of diodes in a particular circuit, with other allied components.The products differ for the purpose of controling power output, to control the speed of motor, or the heat of an electric blanket.

Assessment of the Preliminary questionnaire (1974)

The company has manufacturing plants in all the nine states of the EEC. Most of them started in the 60's, though those in W. Germany and France were begun in the late 50's, at the time of the formation of the European Community.

In the pilot questionnaire the company stated that they expected the effect on their trade to be favourable when the U.K. joined the Community.

They expected the tariff reduction would increase their sales volume by 25%.

They are reaching that figure very rapidly.

This increase in sales volume was not only due to the tariff reduction; there were other factors. One was the restructuring and reorganisation which they initiated; without which the increase might not necessarily have occured. This led to a 20% increase in sales volume.

They have a major manufacturing plant in France, the organisation in the U.K., N. Ireland, and Italy. The major trade areas are in these countries, coupled with W. Germany, Switzerland and Austria as one group. In France they are major electronic group. There are also large areas of trade in Scandinavia and the Benelux countries. Therefore the presence of tariffs in those areas at a high level leads to a situation in which the Italian products are not strong in Italy, the U.K. products are now strong in the U.K. and so on.

There was a problem in getting their heavy plant products, which

has a higher volume than most into other countries where a higher duty was applicable. The elimination of tariffs meant that IR have become more competitive in foreign markets. The price of the exported product to Europe is not increased from 8 to 18% duty rate, which it still is in the ROW.

Did the floating of the £ help the company trade marginally?

The company stated in 1974 that it did.

If the elimination of tariff is combined with the devaluation of the £, the ensuing drop in export prices made the company more competitive in the EEC.

They have said that the effect of the floating of the pound is marginally helpful to their trade; when the questionnaire was filled in, they, as a group of companies, were mainly concerned in dealing in the four main European currencies for financing.

All the accounts are done in dollars, and therefore the floating of the pound is at minimal concern to the corporation as what they see, in real terms, is a devaluation of profit in any particular country, depending on how its currency is going against the dollar.

In terms of International Rectifier (Great Britain) the effect of devaluation on their exports, they can say that their exports are improving, because they can drop their dollar prices, and maintain the sterling selling prices. So their exports to the EEC are bound to improve due to the devaluation, either to improve their margin in selling at the same price, or to increase sales if they reduce the price by the devaluated value.

But the cost element, where they have to import some of the components, will be increased by devaluation. The company imports its components from its associate companies and the effect will depend on the corporate transfer pricing policy i.e. supplying in sterling prices to reduce the duty paid and increase the profit at one end and reduce it at the other, making profit at the point of sale. That occurs in the company's organisation in Europe, has not happened between the parent company in the U.S.A. and the

companies in the Europe group.

Expectations of increased competition in the U.K. from firms in the EEC countries who would expand their trade into the U.K. market

The company, in the preliminary questionnaire in 1974 expected competition in the U.K. from firms in the EEC. However they stated that there would not be any change in their share of the market.

In 1976 they explained that the power semi conductor market, which they are, involved in in the U.K. has been expanding at a large rate, despite the depression in the economy over the last 18 months (74-76). The reduction of tariffs has meant that competition from W. Germany and France has become strong. The problem competitors have is of marketing policies and sales organisations. Although the competition is hard, in terms of activity, their products are more expensive and they do not necessarily have the product to meet the requirements of the U.K. market. The company had the same problem in selling in Germany. However the products of all the European manufacturers are becoming more similar.

In 1974 the company hoped that their trade expansion would counter anything their competitors would gain, and that has been the case, their competitors have not expanded their trade at the company's expense.

The reasons given for that are the price, quality and the suitability of the product to the market. But it can easily depend on how fast and how agressively the market performs for different companies.

The company, in 1974 expected not to change its methods of marketing and distribution in the extended market.

In 1976, that was not the case; they are changing. Previously they had the U.K. company and the Italian company, each selling in its own area and having their own factories. The French and German companies had their own companies regestured in their

countries. The other European countries were covered by agents and distributors, which also belongs to the group, this was the case in Spain, France, Holland and Belgium; although the Spanish were slightly different. Everything else was dealt with within a European Centre Supply Warehouse in Brussels.

The Brussels warehouse was decentralized, and brought under the U.K. control. The U.K., instead of having pockets of marketing formed sales offices with a sales organisation in each country, but the total marketing concept is centralised. This is a system which is similar to that of the larger firms in the semi conductor business, such as RCA.

So, now, they can say they do intend to change their marketing methods and distribution in the extended market. That would not have happened if the U.K. had not joined the Community, it would not have been possible to move products so freely. They would have liked to have changed it before, but the entry was a deciding factor.

The company stated in 1974, that it would be able to sell the same products in the extended market

In 1976 that is still the case, but the need to produce modifications to meet the requirement of the new market took place, in relation to Germany. The company had to modify its products to meet the designs of competitors. U.K. customers are also beginning to ask for these modifications because they are also selling equipment into that market with IR Semi Conductors.

On the investment side, the company in 1974 was intending to invest directly by locating a new plant in one of the EEC countries

By 1976, what had materialised was expansion in certain facilities. Germany is under consideration for expansion, as is France. At the moment they are expanding in the U.K.

The changes which took place in the production side of the business

The decentralisation of the marketing function which took place, and has been mentioned in this case study, depends on making an

independent plant in the U.K. and not one with a seperate marketing organisation. It is in the U.K. because there is expertise here, but also for historical and commercial reasons.

The plant will be decentralised, and the investment in it is easy to control. The control marketing group is to make the decisions about what is right for Europe, at the moment the people in Brussels have not much access to the plant, nor much authority in maniplulating deliveries. They have to rely on the general sales manager in the U.K. for prices or facilities.

The object is to make everything fairer, to get the same deal and price from the U.K. and from the Italian plant, for instance.

All these changes have been helped by the U.K's entry into the Common Market. But these changes would have been made any way. The common market has made especially easier data processing, paper work and transport systems, and the movement of goods.

Economies of scale

In 1974 the company was asked if it experienced some forms of economies of scale, and to rank them accordingly, in order of significance in her case.

The economies of scales which the company experienced and were likely to obtain because of the increased trade in the EEC, would effect the cost factor of it's operations, and consequently its price. This would affect its competitive position in the EEC Market which would amount to the increase of sales in the extended market.

The enclosed table is an illustration of the forms of economies of scales, what is applicable to the company and how it ranked. The additional column shows the changes which took place between 1974 (the time of the initial survey) and 1976(the date the company was assessed for depth and clarification):

Forms of economies of scale	applic-able	1974 rank	1976 changes in ranks
Ability to use larger Plant at lower capital cost	X	4	5
Longer production runs	X	3	4
Greater specialization of labour	X	7	
Ability to use more specialised and sophisticated equipment	X	6	6[a]
Ability to achieve technical economies by linking together processes in one production unit	X	2	3
Organisational economies of scale i.e. concentrating control of a number of production units within one management framework	X	1	2
Advantages of bulk-buying	X	5	6
Marketing economies i.e. sharing advertising, promotion and M.costs	X	6[a]	1
Better distribution facilities		No changes	

Rank 6[a] for the Marketing economies i.e. sharing advertising, promotion and marketing cost. It became higher in the priority list of importance due to the decentralization of marketing..

The Italian Plant concentrates on publicity for Europe, and the plant in the U.K. will concentrate elsewhere.

Rank No.2 (Ability to achieve technical economies by linking together processes in one production unit) and Rank No. 3 (longer production runs)

These have a high priority in the economies of scale list as they enabled the company to achieve a high productivity ratio, together with the redundancy of the labour force, 18 months ago. This lead to a return to full capacity of production runs with the reduced labour force. So, the productivity ratio has been improved by the following factors:

A. longer production runs

B. Technical economies i.e. linking together processes in one production Unit

C. Ability to use more specialised and sophisticated equipment (Rank No. 6)

D. A smaller labour force

Rank No. 4 (Ability to use larger plant at lower capital cost), the company had to put significant investment in this. They cannot buy the machinery and equipment they need, it is made in the U.K. site by specialists.

There has been a product reationalisation between the world wide group, every one defines this particular spectrum of the product range with a certain rate.

Investment in capital plant is very important in the company's case. The company looked carefully at it, partly because of the EEC, and partly their reorganisation of the European group. This meant they could rationalise marketing, and provide a broad outlook and spectrum of market details for the production unit, to enable the management to make decisions of what investment was needed on

what particular product lines. If marketing had said that there was an order in England, running for a year, they would have asked if the production facilities could meet it. If it was a different order to most it might have required the purchasing of certain machines, at a price, say, of £100,000. The management would turn this down because the profit the company would make would not cover this capital cost. But now after the rationalization of the production, this special order may find a market in Germany and in France. The decision would be to go ahead with the capital investment, which the total expected demand in an European market would justify.

That is not only because of the EEC, but because their broad spectrum market, in a European basis, is beginning to materialize. The role played by the British entry to the EEC was psychological, in being European instead of looking at things from a plant point of view. This applies to the management of the French and German office also again the organisation structure is helping, because the German and the French office, report to the general sales manager, who in his turn reports to a general manager.

The foregoing was an assessment in 1976 of what happened to the expectations of the company after they filled the questionnaire in 1974.

Complementary questions to assess the attitude of the company in relation to Britain's access to the market

The harmonisation between the U.K. Company and it's EEC associates after Britain's accession to the large market

- The production operations.
- The marketing function.
- The pricing policy

The company stated that there is no change really. In IR there is 4 or 5 distinct areas, but three major ones.

America, a major area, has the IR corporation and office situated there.

The Italian company, the U.K. company, the German company, and the French company are all owned half by the British, and half by the Americans. The organisation in Europe is called the European Semi-Conductor group. They do all their accounting in dollars. There is also the Japanese facilities, which cover the Eastern Countries. They are 33% American and 66% Japanese. There is a slight difference in ownership between companies, although every one works under the same name, International Rectifier. The Americans ownership is private, belonging to one man. After he had done well in America he decided to go international, he had started in 1948 in America, and by 1958 had chosen sites in England and at Milan, in Italy.

England chose the site because the company next door is connected with semi-conductors. In Italy they are connected with 50% owned by them, they do components for fast cars.

The U.K. plant, and the French plant, is 50% American and 50% owned by Thorn Electrical (U.K. group).

This background history of ownership is necessary to assess the harmonisation between the different companies in the EEC.

If we take France as an example, they may take products from the U.K. or Italy, America or Japan, Brussels, what concerns France will be the landing cost from any of those countries to France.

The company considers itself to be ahead of the politicians. They have realized that Europe is an identity, so they developed the European Semi-Conductor group, formed 8-10 years ago. That was brought into line with the different ownerships; Thorn Electrical industry, their managements, and international rectifier corporate decided that this would be a good thing.

The American market is very large for semi-conductor products, the total European market is roughly the same size, and the Eastern market, which is not quantified as the Japanese keep a lot secret, America is participating with the Japanese with one third of the investment, because they do not want to pull out completely, although there are certain aspects they do not approve of.

It is reasonable to say, that IR have been connected to Europe long before Britain's entry into the EEC.

So the harmonization exists already. In:

A - The production operations:

There is a product rationalization policy between the plants, world wide. However company ownership interferes, and the products rationalisation tends to exist mainly between Italy, the U.K. and America. Italy make products up to about 70 Amp. The U.K. make from 70 to 500 Amp. and they rely on America for products over 500 Amp. The Americans make virtually everything. So the products the U.K. and Italy make are duplicated in America.

B. Forms of Cooperation between the U.K. Plant and the plants in the EEC countries

The same ownership on paper. Any company is identical, in terms of operations, except where it should be varied by local company law.

There are no nationalistic tendancies, other than those implanted by the people directly responsible.

C. How far Sister Companies compete with each other

There is no necessity for competition. The company as a whole operates in total cooperation, the U.K. plant would supply the Italian plant. France found that there was a big market for a certain product, and the market price was $5, then they would enquire at Brussels for a special price. The central supply organisation in Brussels (which will be in the U.K. later on) will ask the U.K. plant what they could supply and the price, say $4, but the quotation from the American plant maybe $3. The deal will settle with the American (which causes frustrations for the management in the European plants). The products are shifted from one plant to any market for the most profitable deal.

So, as long as the price of the U.K. £ is changeable against the dollar the picture changes. It is up to the general sales manager,

and the general manager to decide what is viable for the U.K. plant to produce, it comes again to the product rationalisation. But there is no direct competition. If a French company came to the U.K. plant and asked to buy certain products, it would be decided in cooperation with the IR France, according to the availa bility of the order without upsetting the areas of responsibility.

The corporation consider Brussels as the profit centre, because of the low taxation. That would have happened regardless of the EEC, as it is reasonable to have the profit centre where the corporate taxes are low (at Brussels 49%, it is 52% in the UK.)

The Reorganisation of the structure took place because of the European operations

There is reorganisation of the structure taking place. The company was reluctant to comment on it, but the main thing is it follows the harmonisation of the European operations.

The advantages of Britain's access to the EEC in the case of the company

(a) The advantages are primarily one of reduced tariffs on products manufactured at the Italian plant and at the Dutch plant. This enabled the company to make more profits, and not to increase prices, too much, to the customers, because of the free movement of goods. If the price does not change, but the duty changes, this means more profits. They can reduce the prices by the amount of the tariffs duty reduction, so becoming more competitive. The decision will be based on the level of business, and the level of profits they intend to make.

(b) The other advantage is the freedom of attitude. The French are very nationalistic about whose components they buy as are the Germans. If Britain is accepted as a partner, problems of nationalism are likely to disappear.

The advantage for IR is that it overcame the barrier before EEC entry. Due to that the G. Sales Manager in Italy does not mind if he sells U.K. products. The company is not only European minded, but it is totally international. As an example of the international linking of the IR Corporation, it has a world wide sales meeting once every four years.

The disadvantages the Company sees in Britain's accession to the Community:

The company sees no disadvantages, experienced or expected to experience, due to Britain's entry to the Community.

The state of the economy, the industrial growth, and its implications on the company's trade:

The products the company is involved with are built by different industries, from engineering T.V.'s to computers. The company has an advantage in their braod range of products, not commiting themselves to one industry. However if the G.D.P. suffers, the company suffers. In the last 18 months, with the Motor Car industry down, with civil engineering and financial spending from government sources down, the company, as suppliers of components, is affected.

The company divides its product ranges into two categories. Low power, dealt with by wholesalers or distributors, and higher power, which they sell direct to the customers, however there is an overlap. They found that the low power products, i.e. electronics, are affected very quickly by the state of the economy (e.g. in T.V. sets). With heavy industry, to whom they supply big rectifiers which would take about 9 months to manufacture, if the economy slowed down, the companies still order rectifiers, anticipating a recovery in the economy. So when the lower power rectifiers demand goes down, the company still maintains the higher power products, they enjoy some stability.

In the time of depression the company has a spare capacity situation. Mobility could be achieved in the labour force, but not with 40% of the equipment geared to specific products.

The preparation the company undertook in the knowledge that the G.B. would join the EEC:

As stated before, they were already a European organisation, called the European Semi Conductor group, so there was no necessity for them to make any changes. This is, apart from general sales manager revising the price lists for imported components, which may come from one of the EEC countries with a new lower duty.

From a marketing point of view, there were changes in prices, and certain marketing policies. Certain products became attractive to the new market. They considered switching purchases from America where there were advantages (lower prices and higher duties) to, say, Italy because of the reduction in duty.

The modification of the products to meet the standardisation legislation of the EEC directive concerned:

The company does not recall that it was obliged to make any modifications to meet legislations. They did so to meet the requirements of the German and French markets (e.g. changing to metrication).

The standardisation of outlines was a necessity which would have taken place anyway, but the EEC accelerated this. There is standardisation in the way devices are rated and specified.

Other points the company raised:

They stated that they are progre ssing. They are definitely interested in Europe, more than before. Britain joined the EEC, and are also a worldwide compamy, prepared to sell in any area.

15.

The Company's sales figure.

As 1971 = 1

	1971	1972	1973	1974	1975
Total turnover	1	1.05	1.05	1.08	1.06

of that in the years:

		Domestic	Export
	1971-1972	80%	20%
and in the years	1973-1975	70%	30%

This total export is to the EEC. The increase of sales to the EEC market was 10% in the years 1973-1975.

CASE STUDY No. 12

COMPANY: James Clarke & Eaton Ltd.

LOCATION: Racknell, Berks.

CONTACT : I. S. Eaton - Group Sales Director

JAMES CLARK & EATON LIMITED

BACKGROUND

Clark-Eaton offers a complete service for supplying and glazing all types of structural, decorative, and processed glass. Within the organisation they have the facilities to satisfy the needs of Architects, Builders, and all other commercial and industrial users of flat glass.

Their headquarters at Bracknell, Berkshire, houses the most up to date factory in the country, devoted entirely to glass warehousing, processing, and distribution. These resources, together with twenty-eight branch addresses strategically located to cover the whole of Southern England and South Wales, guarantee their customers regular and reliable deliveries, and an efficient glazing service. Each branch has its own team of glaziers, and holds comprehensive stocks of glass for immediate use. The Bracknell factory carries a regular stock in the region of 2,000,000 sq. ft., while throughout the Group they can draw on supplies totalling more than 6,000,000 sq. ft.

An extensive road transport system links the Clark-Eaton group of companies with its customers. The fleet operates daily, or regular scheduled despatch runs, to most parts of the UK, and employs the most modern vehicles with special demountable body containers to speed up loading and delivery.

Clark-Eaton has been associated with the design and creation of stained glass and decorative windows for well over 100 years. It maintains two manufacturing studios - at Bristol and London - under the direction of Members of the British Society of Master Glass Painters, and their work can be seen in churches, cathedrals, and prominent secular buildings, throughout Britain, and in many countries of the world.

Decorative glass provides the architect, and interior designer, with a variety of effects for enhancing all types of buildings with colour and light.

In addition to creating new windows, the Studio specialise in the restoration and repair of old stained glass leaded windows. With their considerable experience, they are able to ensure that as much as possible of the original glass is preserved, and that any new glass is reproduced to match accurately the colour and style of the original. The stage 1 development of a new factory for James Clark & Eaton Limited at Bracknell has recently been completed, at a cost of £1.2mn. The factory; which takes the place of smaller and more diversified premises at Blackfriars, London, where 650 were employed; is being developed in three stages, and is already a prominent feature of Bracknell's new Southern Industrial Area. By establishing its work in the New Town the company ensured, through the Bracknell Development Corporation, that adequate housing was available to all its staff. Included in the spresent development are a factory building and office block, boiler house and maintenance block, garage, and a car park for commercial vehicles, and car parking space for every employee. Stage 2 will provide additional factory and office accommodation (completed after 1974). A further extension is planned.

Pricing Policy

It is a mixture of more than one type of policy. As they are in the contracting business, tendering for glazing work, then it is "cost plus". When it comes to framed mirrors, their policy is what the market will stand, and will pay. Being in the EEC doesn't affect this at all.

Growth of Trade

In the last five years the growth of the country's trade hasn't been satisfactory but they have taken a larger share of it. The growth of

trade has gone on in the company, not as fast as they would like, but they have succeeded in growing each year. In real terms the growth of trade as a percentage 10%-12%. (That is excluding the inflation rate), the Company considered it genuine growth.

Special features the company possesses which gives it a special place in the Market.

They reckon that they are good at their job; experience may play a role in their concern. They are an amalgamation of two companies - one firm was James Clark and Son, established in 1855. The other is Eaton and Gibson which has been established for over 300 years.

Potential Activities which the company is planning

They are always looking for diversification, and will try almost anything. They have already diversified within their trade, in that they now make windows and supply aluminium shop fronts. They have a division which sells direct to the public - another diversification, because until fairly recently they were interested only in the building industry. Now they direct sell to the public, double glazing replacing windows and patio doors, and there are various other plans afoot.

Potential competition the company foresees.

There are always small firms growing in England, and there will always be a lot of competition in this country. This is a trade that can be started without an enormous amount of capital, and without large premises. As long as that situation exists there will be a lot of competition. There are small firms who cut prices, very often go out of business in two or three years time, and do a great amount of damage.

Profitability

The profitability of the company is not satisfactory in relation to

the capital investment, and in relation to the sales volume. They moved from London in 1969, and therefore lost a lot of money. They always knew that they would make a loss in the move - it was budgeted for, moving the number of people from London that they did was a tremendous undertaking. Their expenses involved all the staff's removal costs - as they brought all their staff with them. The company paid their solicitor's and estate agents fees for instance. They paid everything for their staff. The site was new, and was a capital cost. They then started the slow climb back, "and then there was a ridiculous piece of Tory legislation (a Price Code - as the Company sees it) perpetrated by the Labour Government" which limits their profit. Their profit level was struck during a recovery situation, and they are pinned down to a poor return.

Marketing other products

As a general rule the company does not market products other than theirs, but as a complimentary product, they buy in some, windows for instance, and sell them. But generally speaking, they try to produce all their own goods. They don't actually make glass - they only process it.

Brand name

They tend to use "Clark+Eaton" more and more. And this helps them.

The assessment of the answers of the preliminary questionnaire

Manufacturing establishment in the EEC

In 1974 the company stated that they didn't have any manufacturing establishments in any of the EEC countries.
In 1976, when the company was assessed, the situation was unchanged. The company had not got any new marketing facilities in the EEC countries either.

Trading before 1st January 1973 with any of the EEC countries

In 1974 the company answered in the preliminary questionnaire, that they hadn't traded before 1st January 1973 (the date Britain joined the EEC) with any of the EEC countries.
In 1976 in the assess process they explained that now they had a small amount of trading with the EEC countries, their principal exports are to Norway and Finland.

The preparation the company has done to penetrate the extended market

They have done very little for the reason that all the export goods they produce could be sold to Norway and Finland, and so most of the time they have been running at full capacity.

Was it the capacity which dictated the performance of the company in the EEC market?

Because the company in 1973, and from thereon, was always in full capacity regarding its home and export market, the efforts they took in the EEC were negligible.

New investments, or new joint ventures, in the EEC market

They looked at the possibility of buying a company in France, in fact they negotiated with them for several months, but backed out in the end. Since then they have done very little.

The traditional market of the company and its efforts in the EEC

" Historically, it is probably easier for a UK based company to operate in Scandinavia, where there is a great degree of friendliness towards them". The Company thinks that the Norwegians like doing business with the British, more so than with EEC countries. In theory, they don's want to have it if the Scandanavian market means a loss of the traditional markets which they had before, like the Commonwealth and EFTA markets, with the trade preferences they had before. But the diversion of trade to the EEC countries,

with the tariff barriers for instance, and the condition of trade," I think that most of the companies that had established trade with these countries before diverted their efforts to penetrate the EEC market." The company, when it tried to establish export markets looked, first of all, at which countries had glass manufacturers. That meant all of the European countries, France, Belgium, Italy, Germany - they all had glass manufacturers, and therefore it was highly unlikely that a glass merchant could sell there in competition with the glass manufacturers of those countries in Scandinavia there are no big processing companies as the population is not large enough - so they traditionally import from France, Belgium, and the UK. The company finds that in Scandinavia they can compete with in particular the Germans and Belgians.

Main competitors

Their competitors in the UK are other glass processors, like Dress and Cutler, Glass Coventry, A.G., Bowman Weather, "names that probably don't mean very much to the outsider." These are glass processors, merchants, and glazing contractors. By glass merchants is meant that they buy in bulk from manufacturers, provide a stocking facility and a delivery facility for small glass merchants. In the processing category they make mirrors, produce decorated glass, and toughen glass, and as glazing contractors they will glaze any buildings, such as the Commercial Union Building, the Post Office Tower, the Vickers Millbank Tower, even cottages in the country. It is principally the processing activities that can be exported." So they must therefore either look at an area where there is no home based processing industry, like Scandinavia, or compete with the French, Belgian and German mirror-makers, competing purely on price as their mirrors are the same as any body else's". They can claim that they are better - but at the end of the day they and their competitors are all putting a coat of silver

on a piece of glass. James Clark & Eaton Limited is the biggest glass process industry in the UK.

Their main competitors in the EEC countries are, in Germany, a company called Flachglass, and in Belgium called Mirox; those are the 2 companies that the company runs into mostly in the export market. The company is much smaller than that in Germany, and the Belgian company is in fact owned by the Belgian glass manufacturers. The first three companies in the EEC are, the Belgian, followed by the German, and then the UK.

R & D

It is not terribly significant. Mirror making is a very simple process, a piece of glass is taken and a coat of silver is deposited on it. All mirror makers are using similar kinds of equipment - the company's silvering conveyor is in fact a Belgian piece of machinery, and they are buying glass from 2 or 3 European glass manufacturers such as Sangovin, a French company, The European manufacturers buy the same glass, use the same machinery, so there is very little to choose between all their mirrors. The process can be refind by quality and control, and making sure bad glass isn't let out, but really a mirror is just as good as the piece of glass started with, and their skill production lies as much as anything in quality control.

The three factors which govern the competition condition in the glass processes are: Price, quality, and delivery. The quality in the glass industry is nearly always the same - so it remains with the price and delivery factors to compete on.

Economies of Scale

Rank1: longer production runs.
Rank 2: ability to use larger plant at lower capital cost

As the company explained the price factor plays an important role in facing their competitors, so the cost element is important regarding the production side. The company stated that in 1974

they experienced these forms of economies of scale which helped them minimise their costs, and so have the necessary flexibility in prices.

In 1976 - when they were assessed - they explained that they were now running themselves absolutely flat out over an extended day. They are not running on a night shift as they don't have the room, but they are doing an extended day shift, so Rank one that they put in 1974 definitely works (Longer production runs). Instead of exporting the glass to the EEC countries they are exporting to Scandinavia - but nevertheless the company still holds that longer production runs are significant. Regarding Rank 2: ability to use larger plant at lower capital cost, the company explained that this was a slightly ambiguous statement. They are using slightly larger plant, and they suppose that by using larger plant they produce more, and cost does come down.

Since 1974 the only other form of economies of scale which the company obtained is the advantages of bulk buying. As they have got bigger over the years, so their deals are bigger and they can yield much more pressure on suppliers. Their upward graph in sales is fairly constant, every year they get larger.

Efficiency

Rank 1: An opportunity to smooth out some of the seasonal peaks experienced in the UK

That has definitely happened. They suffer from peaks and troughs in the UK in demand, they are able to smooth them out by exporting more glass when the home market is quiet. Since 1974 they have experienced a bit of a recession so exporting has helped them, but again it is not to the EEC but the old Scandinavian block.

Rank2: The best use of the factors of production

Probably - although the silvering machine is not on a night shift, they have run a lot of other machines on a night shift. By getting

busier, and exporting more, they have had better utilisation of their machines. That probably has been the most significant, as if they can run an expensive machine day and night they are going to get a better return.

Regarding the material, they don't think that they have made better use of their materials.

Regarding labour, they have't had any better people because of the increase in the market. Does the extended market offer more? No they have always been able to recruit the people they wanted. The improved level of output per man is increasing, attributed probably to better layout, and improved systems generally; better machinery and better organisation, hopefully this is a continuing process. Work flows are improved, and maybe the speed at which the machine runs.

The effect of Britain's entry on the trade of the company

In 1974 the company expected that, as their products carried a full import duty, lthe increase of sales would be lfrom 5-10% in volume. But they have not experienced this, because of the strain on the capacity in use. The organisational structure does not prevent the firm from penetrating the market and they have the capability, within the organisational structure, to increase sales. This expectation was based on the capital investment which they were planning to do. They had at that time (1974) probably planned to expand what fairly small business they were doing. They were exporting to France slightly, and they knew at that time they could be competitive; they therefore assumed that if the duties were reduced, they could get more business, simply a matter of supply and demand. They were busy supplying the Scandinavian countries so they could not supply the EEC countries. They had negotiated to buy a plant in France, but it has not turned out as they expected. Their expectation in sales was based on increasing

the capital invested as it has not happened, the increase in sales has not materialised.

Other barriers to entry in the case of the company

No, there were none; they think that those products which they export to other parts of the world, they would be able to export to the EEC countries, because their quality and service is good, and their prices competitive.

How far did the floating rate of the pound help the company's trade?

In 1974 the company stated, in the preliminary questionnaire, that the floating of the pound helped their trade significantly.
In 1976 their comment was that even in those days, 1974, the pound was higher than it is. It was falling, and so every time it fell they were more competitive but in those days they had no idea that it would go as low as it has. But there is an element which might compensate for the fall in the pound, i.e. the rise in the cost of the imported materials due to the devaluation of the pound. This comes to 20% of the total cost of the material in the company's case, but the prices of materials have stayed stable, because they buy glass from continental manufacturers."There is a very significant flat glass manufacturer in this country, the foreigners know that if they are going to sell the company glass it has got to be at the same price at which Pilkington's sell, and the fact that the pound has gone down in price merely means that the foreigners make less money out of selling glass to the company!

The State of the British Economy and its Effects on the Performance of the Company

The inflationary wage claims and the inflation rate in the UK have affected, significantly, the performance of the company. However, the company was able to be competitive, because the overall balance of the devaluation of the pound against the wage and material price increases were in favour of the company.

Competition in the UK from Firms in the EEC Countries

In 1974 the company expected increased competition in the UK from firms in the EEC countries after the UK's adherence to the community, and after the tariff reductions.

By 1976 their expectations had materialised, and they experienced a shift in favour of the competitors. Regarding the share of the competitors in the UK market, the company could not quantify it because of the lack of statistics.

The company tried to establish what share of the market other companies have; they have had consultants who told them that this was easy, but when they tried they have found this not to be true. They do know of areas where the Belgian glass processors, in particular, have made very significant inroads on some English firms and have quoted extremely low prices on the Continent, and a cut-price war has started. There has been increased competition, but it is not very significant, and not yet alarming. They would consider the competition due more to cutting prices than to the EEC entry. Inevitably, being in the EEC has had an effect on competitors' thinking. The executive I interviewed has "sat down and talked to competitors, and they have said they regard England as just another market, now we are all in the EEC."

There has been a slight shift in favour of their competitors; the mere fact that they have taken business illustrates this to a certain extent. Although the company's share in the market has been increased, the competitors succeeded in gaining a foothold in the UK market. This has become known to the company from its own investigations, and not from published statistics.

The Marketing and the Sales Functions

They did until recently have a Marketing Director, who left them, and they are in the process of recruiting another one "right now." They operate as five Divisions, each with its own Board of Management; each Division has a Managing Director, and either a Sales Manager

or Sales Director. At Bracknell the company has various Group functions; there is a Group Marketing Director whose job is to advise the Divisions, and generally fulfil a marketing function. The Marketing Director reports to the Deputy Managing Director who oversees the marketing side, and performs the functions of the Marketing Director when the company is without one. So the structure of the organisation has the responsibilities of the marketing function, even if it is not in operation now.

How the Company Meets the New Competition in the UK Market from Firms in the EEC Countries

In 1974 the company explained in their elementary questionnaire that they are meeting their new competition by improved production methods.

In 1976 they explored that point by stating that they are always trying to improve their production methods. As a company they are always looking for better means of doing things, which may mean buying machinery, making existing machinery run faster, or better layout in the factory, etc.

With the other two orthodox methods of meeting the competition, i.e. improved products and cutting prices, the company explained that they cannot do anything about the first because the methodology and technology are the same all over the industry, but they are cutting prices in some cases.

Other ways by which the company meets new competition are; to consider new ways of delivering glass, they now put it on pallets; and other means. They have lorries with cranes so they can unload pallets at customers' premises by crane, instead of by hand. This is how they have updated their delivery fleet.

Methods of Marketing and Distribution

In 1974 the company had no intention of changing its methods of marketing and distribution.

In 1976 they pointed out that hopefully their marketing methods are

adequate, and that they know they can use the same methods of distribution in the extended markets as they use in the UK. They deliver glass by their own transport in Norway, using roll-on roll-off ferries, and an articulated lorry, and have done this on the continent. Their method of marketing is efficient enough to meet the continental requirements, and their distribution is good.

Who Handles the Sales?

In the UK they have their own representatives. In the export market they use agents, and also an Export Sales Manager who goes abroad quite a lot for promotion, but sales tend to be done by agents, who are completely independent.

Ability to Sell the same kind of Product in the Extended Market

In 1974 the company pointed out that they are able to sell the same kind of products in the extended market.

In 1976, when asked if they considered applying a minor change to their products, or introducing a new product to meet the requirements of the new market, they explained that with regard to framed mirrors there might be a difference of taste, but the product is still a framed mirror, and in that sense will be unchanged. The style may change, but style changes in England also from year to year, and the company applies a minor change to its products.

Investment in the New Market

In 1974 the company indicated that it had no intention of investing directly, by locating a new plant, or by a joint venture, in any of the EEC countries.

In 1976 the only change which had taken place were negotiations, in which they are currently involved, to buy a French venture.

The Attitude of the Company on Britain's Entry into the EEC

I quote the exact words of the executive whom I interviewed:-

"I started off being tremendously in favour of the Common Market; it seemed economically sensible - everything one read tended to point towards that. I now find myself in a state of complete bewilderment, not really knowing whether England is any better off or not, because everything one reads conflicts with what one read before. There is not any one person who can state authoratatively what has happened. You get somebody standing up and saying one thing, the next day it is totally contradicted by someone else. It does not seem possible to quantify just what has happened to the UK by joining the Common Market. For every good thing that it put forward, someone who is opposed to the Market will put forward something equally bad, and for every set of statistics that one politician produces, others will shoot them down. I have never seen any set of statistics which would enable anybody to take a balanced judgement of whether or not we have profited by being in the Common Market. I have seen no such set of figures.

We are converting things, and the problem is that it sounds as if I am decrying what we do, but one has got to face up to the fact that there are people in France, and Belgium, and Germany, converting in exactly the same way as we are.

We are fulfilling a need in our country which is fulfilled very ably in their country, which brings one back to saying that we can compete on price, and in the Scandinavian countries where there is no production in the country - not on the scale that there is in the UK - and so that is where we have the advantage, plus the fact that in Scandinavia they still want to deal with England. It is very comforting."

<u>The Disadvantages of Britain's Entry into the EEC in the Case of the Company, if there are any</u>

"Regarding the national attitudes (by France, Germany, etc.) the company experienced that obstacle, it is a Common Market with a lot of uncommon elements."

The Advantages of Britain's Entry into the EEC in the Case of the Company

I quote:-

"There must be advantages, but we have not taken advantage of them, because we are fully committed at the moment to other countries, and there are historic reasons why we are exporting to those other countries. If we were not, we probably would have tried a lot harder to sell in the EEC, so on the basis that we are not actively selling in the EEC, you could say that there is no advantage to us. But had we not been exporting to Scandinavia, and to a certain extent to the Middle East, then we would probably be trying a lot harder in the EEC, and then I could give you a totally different answer."

The Performance of the Company in the EEC Markets, in Theoretical Terms, if it Could Avoid the Constraint in Being Able to Expand its Trade to the EEC Market (The Validity of Investment to Raise the Capacity)

When the company was asked if they had the means to raise the capacity, and what would be the situation in expanding their trade to the EEC markets, they answered that they would look to see where they could get the best price for their products, and they thought they could probably sell more products at a better price than they would be able to in the EEC countries. They doubted if anybody foresaw the situation in 1974 that, at the moment, they tend to look much more at the Middle East, as there they can sell a broader range of products than they can anywhere else. The competition is there, but they can offer a complete range of products, a different situation to selling in Europe. In Europe they can only pick bits of their production to sell; and one or two of their competitors are beginning to do the same, but they do not think they are doing it very well.

It is not the capacity in use which is the only constraint in the case of the company, but the requirements of the market as well. So the company point of view is that increased competition in

the UK from firms in the EEC countries is the major disadvantage they experienced.

The future, the company, and the EEC

Their export strategy is to sell the broadest possible mix of products, at the best possible price. It is their understanding that, at the moment, there are more export opportunities in the Middle East, than in the EEC countries. If they have the capacity, the investment, and the capability, they are going to other markets than the EEC.

The effect of the performance of the British Economy on the performance of the company.

They think that what is affecting them at the moment is the biggest recession in the construction industry for the last 30 years, which on certain aspects of business is disastrous; it is not an aspect which they can replace with exports. There aren't the houses being built, and people dont want to buy glass, and don't want windows glazed; they aren't selling glass to other small glass merchants and glazers. The other EEC countries have their own glass supplies, with exactly the same problem. The company can say that the recession affected the main dealers, or main area of marketing which is in construction, and then affected them, and they can't replace what they lose, in the UK, by marketing to the EEC, as they also have a recession.

The need to adapt standards or modifications to meet the requirements of the market, or to meet any legislation from the directive concerned.

If the opportunity is there, in the Common Market, would the company be obliged to modify its products to meet the requirements of the market, or to meet any legislation from the directive concerned in the EEC commission?

The company commented that they are currently very much involved in the ISO standards, and there are working parties now looking at the EEC and International standards. They don't think

that they are going to have very significant impacts on them, but if the safety legislation, which has been discussed in the EEC, comes to this country, it will be very much more stringent than those they are looking at.

Other obstacles to entry in the case of the company

Apart from the orthodox barrier to entry (the theoretical ones), the company's opinion was that there was no obstacle, or barrier, in its case, other than capacity. I quote:-

"I am quite sure that had we got the capacity, and had we not got an opportunity to export elsewhere, we could export to the European countries, and the EEC. Well, there will be a barrier always in that people would rather buy goods produced in their own country." They added:-

"The nationalistic feeling. Basically we can sell. There is no doubt about it. If we can sell in the Middle East, and we can sell in Scandinavia, I am very sure that we can sell in France."

The preparations the company took to meet the extended market in the knowledge that the UK will join the community.

I quote:-

"Our strategy, is to sell the broadest range of products we can, at the best price irrespective of Britain's entry into the Common Market. We will sell anywhere if our products are accepted, and if the capacity permits. So Britain's entry into the EEC was a non-event regarding our export strategy."

The benefits the company obtained from trade agreements between the EEC and its associates, and with the other countries in the rest of the world.

The Company hasn't benefited out of these agreements because they haven't tried to do so.

A general view of the company on Britain's entry into the EEC regarding their performance.

I quote:-

"We are negative about it, and one periodically sits back and says "Are we missing anything?". This great huge market, that everybody spoke about, and everyone got so excited about, with all the publicity, at the end of the day it is nothing really. Because, I do not care how much one says that we are one great big country, we still think of it as being "Export", and I am interested in one thing only, and that is selling the maximum amount of products out of this place at the maximum profit. And if we find more profit selling our products at the North Pole instead of the EEC countries then we will go to the North Pole. At the moment we believe that we can get the most Profit in the Middle East. So that is where we concentrate our effort. I am sure that all sorts of people say that we have got it all wrong - but at the end of the day it is profit that counts."

How the company faced its European competitors in the rest of the world market

The company stated before that in Europe their two main competitors are the Belgian and German companies, rated as first and second in Europe. The company is meeting the competition they face from their European competitors, in the rest of the world market by price advantage.

I quote:-

"I think that is where the low sterling helps us . . . in the Middle East. I cited for instance, - that the biggest mirror maker on the Continent is in Germany. They and the Belgians one are very much on a par: but they are mirror makers, - we are glass processors: we make mirrors, we toughen glass/we decorate glass/we produce aluminium windows - so we can go to the Middle East and we can say, this is our package. We can do glazing and we can supervise local labour in glazing, we can offer you aluminium shop fronts, and aluminium windows, we can offer you mirrors, we can offer you decorated glass, now that is a lot more than a German mirror maker can offer. That is our strength. This wide range plus the fact that we, in fixing glass and windows, have tremendous expertise."

CASE STUDY No. 13

COMPANY: Ferodo Ltd.

LOCATION: Chapel-en-le-Frith, Stockport, Cheshire

CONTACT: G.R. LEES, Area Manager (Export)

FERODO LIMITED

BACKGROUND

a. HISTORICAL BACKGROUND

The present company is the direct descendant of that established by Herbert Ferodo in 1897 and has, therefore, longer experience of friction material manufacture than any other. Long service being a common feature of employment at Ferodo, the experience accumulated over the years is not merely a matter of words but very valuable. In fact, the considerable technical insight, and outstanding business acumen, of the originator of the industry provided a firm foundation on which the company has built soundly, first as an independent limited liability company from 1920 to 1925 and, since then, within the Turner and Newall group which acquired Ferodo Limited in 1925. Throughout these changes, the aim has been, and still is, to keep the company in the forefront in all respects.

The company has the largest research organisation in the world devoted solely to friction materials, but, although many learned papers have been written by scientists employed there, the discoveries made are not merely of an academic nature. The fundamental research into the nature of friction, the structure of asbestos, and the properties of natural and synthetic resins, continues to yield results which, directly or indirectly, influence the development of friction materials designed to keep ahead of the needs of our technical age. Development work is also carried out on the manufacturing methods and plant used in the factory; in addition to the search for better friction materials, there is a need for better and more economic ways of making them. At the same time, the movement of material through the factory, and production planning, are constantly improved, so that overall efficiency is steadily increased.

In addition to the understanding of friction materials and their properties acquired by Ferodo scientists, Ferodo engineers have a great knowledge of the application of these materials to all classes and types of equipment. It is part of the policy of the company not only to sell the best materials for the job, but, understanding the customers' needs and problems, to offer the best possible technical service.

b. THE COMPANY AND FRICTION MATERIAL

In the early days of friction brake and clutch manufacture it was found that the best results were obtained by using a hard material for one of the rubbing surfaces, and a softer material for the other. A common choice for the hard material was cast iron, easily made into brake drums, or any other shapes required, while materials such as wood, leather, and rope were used against it, and gave the high friction which was needed.

The cast iron was quite satisfactory for the mating surface, and is still the normal choice, but the makeshift friction materials were only successful when the duty was very light. In other cases they wore rapidly, gave erratic performance, and even caught fire when they overheated so, quite clearly, something better was needed.

The story of friction materials proper starts with Herbert Frood in 1897 when, as the outcome of his experiments in his garden shed, using a water wheel for motive power, he offered the first composition brake blocks for the vehicles of his day - mainly horse-drawn. These blocks gave more consistent friction, and longer life, than the simple materials used previously, and Frood's prduction had to be increased continually to keep pace with demand. The company which Frood started in his own name in 1898, and which later he named Ferodo Limited is certainly the oldest established friction manufacturer in Europe, and probably the world.

The range of materials developed since by Ferodo Limited has been formulated to give reliable friction - high or low as may be required - under various combinations of operating conditions, to have good

resistance to wear, and not to damage the metal mating surface. This has been achieved to such a degree that friction brakes, clutches, and other devices are now an accepted feature of the modern world.

c. FERODO PRODUCTS

Although most widely known for its leading position with regard to brake and clutch linings for cars, trucks, and buses, Ferodo Limited has been for over 60 years the principal manufacturer of anti-slip stairtread. Although the operating conditions are entirely different from those of materials used in motor vehicles, the role of the friction material insert is just as critical in terms of the safety of the users of staircases.

A wide variety of extruded metal sections with coloured antislip inserts are available for fitting to the edges of steps which are made of all kinds of materials. In addition to the increased safety offered, the appearance is improved considerably, and worn staircases can be repaired economically.

To compliment the range of stairtread, Ferodo stairtile and deck tread have more recently been made available to provide further safety for pedestrians. Stairtile is used for filling the treads of steps when stairtread is fitted to the edges: deck tread can be used for covering ramps, bus floors, and other surfaces which may become slippery.

A most important product of Ferodo Limited, and one which is in a product group of its own, is the drive belt. The company has for many years been concerned with the transmission of power by means of belts, which are normally of V Section. This design is used because of the extra grip which enables more power to be transmitted without slip occurring.

The essential elements of belts are the cords which resist the tensile forces, the rubber cushion which is shaped to fit the pulley and which transmits the forces to the cords, and the cover which has to resist

the wear and contamination encountered in service. Research into each of these elements has been carried out continuously, and significant improvements in materials and methods of construction have been effected. Ferodo drive belts are now the finest obtainable for car fan drives and other automotive, agricultural, and general purposes.

d. FERODO AND THE WORLD

From its modest beginnings in a small village in the Derbyshire Peak District in England, Ferodo Limited has grown until its products have become available on a world wide basis.

England, Wales and, Scotland are divided into four regions each handling Sales and Distribution to manufacturers and whole-salers from a strategically placed depot, two regions also having sub-depots. Northern Ireland and the Irish Republic are separate regions within the Homes Sales organisation.

Overseas, Ferodo products are made by factories in Australia, France, India, South Africa and Spain which serve the markets - particularly the automotive industries - of those countries. Ferodo products are also made in Japan, under a licensing arrangement reached in 1967 with the giant Hitachi group. In addition to local manufacturer in these countries, some Ferodo materials are exported from the United Kingdom to meet special needs.

Consistency of quality of products made overseas is guaranteed by the technical liaison which exists between Ferodo Limited in the United Kingdom and the associated companies. A team of technologists was formed some years ago to visit the companies abroad, when necessary, to assist in the installation of new types of plant, and advise on the initial production of newly introduced materials. Where sufficient testing of samples cannot be carried out locally, these are returned to Chapel-en-le-Frith where test capacity is made available for this purpose.

Sales to most other parts of the world are through agents and distributors - a number of whom have associations with Ferodo Limited of more than 45 years. Many of these are sole agents for the countries in which they are situated: they are kept in touch with technical and commercial developments by the regular tours of the Area Sales Managers as well as by their own visits to Chapel-en-le-Frith. Sales to countries in eastern Europe are through their state Trading organisations which handle all such transactions.

In this way, customers in every part of the world (subject of course to import restrictions) have Ferodo friction materials and other products available to them, and can benefit from the many outstanding features which have enabled the company to justify the slogan: "Ferodo First!".

Main Area of Marketing other than the home market

Nigeria is the biggest, then Iran. They have a form of manufacture which is incomplete, this is called, 'finishing the supply materials in an unfinished situation.' Governments of the under-developed countries are able to get advantages from those that Ferodo is based in to establish such an industry.

These finishing industries are in Sudan, East Africa, Sri Lanka, Trinidad, Jamaica, and Nigeria - one is being installed in Ghana, and they are bound to Ferodo by agreement to buy their raw materials. This is really superceding the supply of fully finished, and semi-finished, materials to meet Government restrictions, to save them for an exchange, and to ensure a large share of the market for themselves. The big markets are in all the European countries; Sweden has a very large market, Yugoslavia is surprisingly big, and Switzerland has a very health replacement return. They have people who insist on Ferodo; there are constant sales in Sweden, for example £160,000 - £180,000 a year, next year it might reach £190,000 - £195,000; in Switzerland sales might be £40,000 a year,

they might go up to £50,000 a year, but they are steady (Ferodo know they are going to get at least that amount of business every year). Outside Europe, and the U.S.A., the volume which Ferodo have not yet touched, they do not think they have the potential to meet, as they do not bother about it too seriously. It is a very price-competitive market. If they had surplus volume they would go for this market but they would only be straining their own facilities. The Caribbean takes sover one hundred thousand pounds a year.

Who handles the sales?

They are vendors who create their own business. Most of them have Ferodo as the major line or their own tied warehouses. There are perhaps about six warehouses for Holland, or Belgium, wholly-owned by Ferodo, and they have distributors in the local centres who have complete authority to fix their own price basis. The Company has not say in that. The negotiations with the vendors only involves the supply volume. After sales their customers decide for themselves the marketing arrangement to suit their own business.

The marketing and sales functions

They do not have a marketing function; there is no marketing organisation. There has been some debate as to whether they should have a marketing organisation associated with the domestic market. They do have a statistical section. There is a section which maintains competitive price records, and this sort of thing, but they do not have a market research section. They have a statistical section to advice on statistics whenever wanted; they are able to find out, for example, what the total vehicle population is, or what the total friction material sales are into a particular market. Ferodo can find out who is making those sales, but it is not research, in that they do not do any independent work. If they do, then it is asked for by them. Let us say that they have the product mix, they know exactly what their profitability is, market by market, they know what their

turnover is in a particular market; they are able to ask for information on that market and it will be given to them. The statistical section will feed information back to them, but they do not do any independent market research. They have no contact with their agents or similar sources.

Main Competitors

In this country, British Belting Asbestos in Cleckheaton, Doll International in Manchester, and The Cape Asbestos Company are the main ones. Ferodo wholly own Ballarco, which used to be called Reasbestos Ballarco - that is another Brand name. In the E.E.C., the competition comes mostly from Germany, (Eurid) in Germany which Ferodo believe is partly owned by Bendix in the U.K. Textra in Germany is owned, they think, by British Belting; Bearall another German company, and Energit another. In Denmark, a company called Rowlands, who manufacture a wide range of woven and moulded materials is a competitor. Those are the principle ones in Europe; then there are the Americans, who do a small amount, and have their own subsidiaries in the U.K., but nothing comparable to the ones that have been mentioned. Ferodo put themselves first amongst them. They believe their export business is greater than any other company on the friction materials side but although they put themselves first it does not mean they are first, in every product, all the time. It might happen that Mintex have a larger share of the Disc Brake business; or another firm has a bigger share of some other line. Taking replacement and world markets into account, Ferodo would say they are the biggest, but they do not think by a long head and the competitors are catching up. Going back to 1930 Ferodo were so far out in the lead that they had very little competition, but competition has strengthened continuously, and is still strengthening and the lead is now not dramatic, but it is just about there.

Pricing Policy

If they are selling a large volume of a number of references to an OAE customer, then they cost each item separately and take running costs into account. They would recost it every six months, and whether they increase prices, or not, would depend upon their profitability, whether Ferodo feel the customer could afford it, and whether they feel they can negotiate. If the replacement market is taken, where they sell of at net price, and a total range of references, Ferodo would then have to base their prices on what their competitors are doing. Then Ferodo could take spot checks on certain references, from time to time to see how they were doing, and if those spot checks suggest that prices need some re-vamping, then Ferodo take a greater scale of costs and, if necessary, put their prices up across that particular scale. Where the facts look bare, they are based on competitive levels, with random checks.

The Growth of Trade in the last 5 years (1971-75)

They think it would be true to say that their turnover five years ago (total export turnover) was about £4m. This year (1976) it should be on, or about, £7m on selling price.

Special features the company possesses that gives it a special place in the market.

Brand Name

As they are the oldest people in the business, the name Ferodo is almost an anogram of the Founder of the Company. Friction materials were invented at Ferodo, in Chapel-en-le-Frith, and the company believes there is an association very often between Ferodo and friction material. Sometimes people might go to their competitors and ask if they could have some Mintex Ferodo, or some Ferodo Kapasco, this is a major strength.

Licences and Patents: They use registered users agreements very frequently. In overseas business they cannot patent a formulation so easily, they patent new research (e.g., a retarder brake, which they have just patented in the U.K., to sell a friction material for trucks, and articulated units based on engine power). Another thing they have patented is related to disc brakes (how a disc brake works: there are two disc pads either side of, and clamped down onto, a rotating disc, and attached to the wheel. Any irregularity, in the way of pulling from one side to the other, will cause a squeal. It was always assumed that the squeal was the fault of a brake pad. Ferodo's research people found, through four years of testing, that the actual cast iron disc itself changed its properties with regard to heat and friction, and that any irregularity in the cast iron can have just as much an effect on braking efficiency as the disc brake pads themselves). This is a method of treating the cast iron to avoid chemical change. Now they are trying to sell it to the vehicle manufacturers (Mercedes, Algey, and one or two continental manufacturers have discussed the matter, with the idea of taking over each other).

Experience: Although the company has been established years, experience is not the main factor which gives the company its place in the market. It is mostly the fact that they spend rather more than they should on technology and research, these are a very large part of their annual budget.

Capacity: They do not have spare capacity at the moment, but they feel it would be possible to get more out of the machines than they are getting at the moment. They are putting this down to a labour relations problem rather than anything else. They do not have spare capacity, in the sense that their order books are full across the range on three shifts, on a lot of plant items, and have been like this all the time, even in the midst of the recession.

Profitability

It fluctuates a lot, the first six months it may appear good, and the second six months not so good. The present profitability looks good, but Ferodo think it is not going to be like this over the second part of the year (1976) when raw material increases hit more heavily than in the past. Overall the profit margin is not satisfactory, not as high as it should be if it is related to the capital invested. It was better in 1976 than in 1974/75, but still not satisfactory. The build up of finished stock is far too high for their turnover and profitability, particularly on the export side. This is because there are so many conditions involved with the oil crisis. A lot of countries are finding it extremely difficult to raise foreign exchange and foreign currency. Ferodo have had a tremendous amount of materials held up, which they could not ship, made against orders placed in advance. If orders are being met within four or six weeks, it is not so bad, because the firm still supplying in the conditions in which the order was placed.

Marketing other products

Only where their material is fitted to it, would they sell a brake shoe lined with a friction material. The friction material is their part, but they sub-contract out for the metal which has to be a fundamental part of what they are making, integral to what they are doing.

R & D.

The company always, by research and development, modifies it's products to meet the requirements of the market. The R & D plays a very important role in the company; moreover their technical people travel as much in the E.E.C. as those in sales, they visit their opposite numbers, the manufacturers in Europe, very frequently.

The Harmonisation between the Company and its Affiliates in the EEC.

The company mentioned in other places that its products, and the products of the affiliate companies, are complimentary. Exploring that point in relation to the harmonisation policy of the company with its sister companies, they explained that clearly the Italians are much better placed to manufacture for Fiat, likewise the French company are favourably placed to manufacture for the French range of cars. The German market is divided between the French and the British. The French are very strong, for example, in clutches, so the French have a lot of original equipment on German cars for clutches. The UK has original equipment on German cars for Disc Brake purposes, and Brake Linings, but not so much for clutches. So technology is related to respective strengths, the French technological advance on clutches is terrific, they have searched ahead, and to their mind they (the French) will be far in front, both in material formulation and clutch design. The French have a very big interest in Europe (in Italy already with Fiat). Belgium manufacturers are supplied with Ferodo Disc Brake materials from the U.K. Italy do with their own Disc Brake materials from their Italian plant, for Fiat, and they also manufacture for Opel and Volkswagen. Ferodo expect to get markets in Germany, but they would control the marketing from the U.K. It is all done from the U.K. If the U.K. agree a link between Ferodo Italy and their vendor in Holland for instance the U.K. company would establish a link for them, then they would be able to maintain that link and supply directly without reference to the U.K. The initial introduction, the definition of the range of products that can be supplied, the prices are all governed from the U.K. plant. It goes back again to what line the company is superior in, and then to capture that market. This happens in two respects. One is technology and the other production capacity. If the technology is right and the production capacity is there, then they would go to the market.

The Re-Structure of the Organisation the Company undertook to meet the extended market (the E.E.C. market).

There was no need to change the structure of the organisation for a marginal increase of about 15% in the E.E.C. market. Ferodo did have a big share in that market before the U.K. entry and they say, I quote: "you don't change your structure fundamentally for 15% increase in the sales volume. It does not call for a fundamental change of marketing structure." What they have done is to establish a special section which deals with Germany specifically, Ferodo is engaged in chasing orders from Germany. The section acts as liaison with their technical people in Germany, and be cause of this the throughput of German paperwork is very streamlined, Similarly their German Manager, who is a German, has a lot of contacts in Europe generally, and often makes visits to original equipment accounts in Germany, or Italy, together with the original equipment manager at Chapple, and the Sales Director of their Italian Factories. The three of them make a visit, negotiate price increases, decide who could best handle the account, and so on. The German manager acting as an introductory factor and smoothing the way, meeting the problems and following up afterwards on any progress made during a meeting of this nature. This is the type of link which exists between the company and its affiliates. Apart from that, there were no fundamental changes in the organisational structure after Britains entry into the EEC.
The Export Sales Director used to spend "let's say for arguments sake" 15% of his time on German and EEC affairs." The German company is his baby, he has created it, he appointed the staff and is looking after it." There is much more attention from the top of Ferodo than there used to be, not because of membership of the EEC, but a by-product of creating ones own company.
If Britain had not joined the community that change would eventually happen, but later. The decision was more or less made for them, Ferodo believe, when Britain went into the EEC, had this not happened change would have been deferred.

Britains entry speeded things up, the company was planning for the Eruopean market and were already in that market. They suppose if they had not changed, it is just possible the German company would have never started, and got off the ground; it was talked about before, but when the treaty was signed, Ferodo immediately went in.

The Assessment of the Elementary Questionnaire

The expectation of the increase of sales due to tariff eliminations

In 1974 the company expected that the increase in its sales volume, due to the elimination of tariffs, would be in the range 11% - 15%. When the company was asked in 1976 if expectations had materialised, their answer was:-

"It is a bit difficult to break it down, because price increases are getting bigger, but let's say in numbers of unit, yes. There are contributive factors which are not only associated with tariff reductions, probably the biggest single factor would be the German Company". They have their own German company established in Visvahden to co-ordinate sales. It was established in 1972, but is not a factory unit, only a Sales Office, but that has made quite a difference in the EEC. Other factors are the technology they use for manufacture; for instance, the technology used for drum brake lining manufacture is such that they have an appeal to the European manufacturers in Germany, and Scandinavia. In Germany companies like Opel Federal Ford Girling the clutch manufacturers (Fisk and Sachs), buy a lot of Ferodo, because they cannot find suitable alternatives from German resources, on a technical basis. Ferodo get quite a big yearly increase, until the Germans get a higher technology improvement than they have at the moment.

How the devaluation of the £ helped the Company's trade

The devaluation of the £ has very little contributory factor, because Ferodo almost absorbed the amount of devaluation in price increases. It should be noted that the company, when it was asked in 1974 to what extent has "the floating rate" for the £ helped their trade in the EEC countries, answered that it helped them marginally.

Increased competition in U.K. from firms in the EEC countries

When the company was asked in 1974 if they expected increased competition in the U.K. from firms in EEC countries who could expand trade to the U.K. market following tariff reductions due to British adherence to the community, their answer was "no they don't expect that".

In 1976 when the company assessed their answer in relation to that question their answer was that this competition has not increased, and they are not expecting it to increase.

In the automotive side particularly, because English buyers are very conservative they, the Competitors, find it hard to penetrate the U.K. market, where Ferodo have established lines of contact; Ferodo's interest in the U.K. is so strong, and their strength in Germany is because of their strength in the U.K.

From the technological point of view the German's Brake designs are fundamentally different from Brake designs in this country, so the Germans design of Brake needs lower friction line because the boost factor of the Brake is very high. The Germans (Ferodo mention the Germans because they are the biggest manufacturers of friction materials in the EEC, outside this country) in particular do not make a friction material of the right sort of friction property to be suitable for vehicles in the U.K. Ferodo on the other hand do make a suitable friction material for Germany.

Methods of marketing and distribution in the extended market

In 1974 when the company was asked if they intended to change their methods of marketing and distribution in the extended market, they answered "yes we do".

In 1976, when the company was assessed, they indicated that the German company is the first example of moves they have taken to capitalise on membership of the EEC. They don't think they will do any more to look at Europe as an Export Market of Britain, but rather as a market part of an international operation. By it's national operation and association with the French and the Italians, particularly, there is no more scope for establishing any further manufacture. The Italians supply very freely into the other member countries of the EEC, and in some cases items which they manufacture in the U.K. are shipped here, because of their proximity, their volume, and be cause of their capacity and order situation, enabling them to do so. So one is complimenting the other already, but Ferodo don't just look at it from the EEC point of view, becau se they also intend to and are supplying into Europe from Ferodo Spain, Ferodo India, and Fran ce. (In France they only have a minority share of the equity, it is the biggest single holding, so they said discount that from the point of view of the discussion, but they indicated that India and Spain are very large suppliers in the EEC.)

The ability of the company to sell the same kind of product in the extended market.

When the company answered the preliminary questionnaire, in 1974, the answer to the question of their ability to sell the same kind of product in the extended market was positive. In the assessment stage in 1976 they explained that it was still the same.

The intention of the company to invest directly in the EEC countries by locating a new plant in them

In 1974 the company answered the intention to invest directly in any of the EEC countries by a negative response.
When it was assessed in 1976, the company indicated that no investment has taken place, and there was still no intention of new direct investment.

Economies of Scales

Rank 1. Ability to achieve technical seconomies by linking together processes in one production unit.

Rank 2. Ability to use more specialised and sophisticated equip ment.

In 1974 the company had obtained, or expected to obtain those forms of economies of scales, and it ranked it as No. 1 and No. 2 among the applicable forms of economies of scales.
In 1976 they explained that economies of scale have been a factor with them on production, and in using the University of Manchester Studies, they achieved economies of scale. They have put in new production lines for brake lining, a completely new production. This has been justified by the EEC entry, but they stated that this would have gone in anyway without the EEC. The EEC, with the German company, has given them justification in a short space of time.
In theory, the expectations of the increase of sales, the production capacity, and the more volume they have, the more the company achieves economies of scales in these respects. The difficulty here, from their point of view in planning production, is that a great deal of their business, particularly on the export side, about 28% is original equipment. Original equipment accounts are big, but they are vulnerable, so Ferodo could get an account which might, in terms of turnover, give them something like £15,000 a month, and they could lose that if somebody else produced a better material. It is very difficult to plan production on original equipment, production can be planned on replacement, which is what

they do. Ferodo take the total turnover, and plan their production, and budget their turnover for about 5 years ahead. If there are any sweeping changes in the original equipment market, then these will be written in to the budget as an amendment in the short term. The replacement market, the other 72% however, gives them the major call of their turnover, and that forecast is surprisingly stable, the original equipment gives them variables on turnover. Now in the EEC Ferodo have a very large replacement turnover in Belgium and Holland, and virtually no other replacement business, except for Italy. In Italy they have their own factory, but where they can't produce a range of products they are supplied from Chapple, and the Italians act as their own sales agents, in association with Vendors of many years standing. The two together look after the replacement market in Italy, they do quite well with materials which their own factory can't amake, and the big markets in the EEC are Belgium and Holland. Germany is one of the volume sensitive areas. They recently had a contract with a truck manufacturer, worth about a quarter million pounds a year. They have all their very heavy truck business, but if another German manufacturer comes in with something substantially cheaper, and better, then they could lose perhaps all, or a considerable proportion, of their contract. So regarding economy of scale, they found it a very difficult thing to plan with that sort of volume. They have anticipated on their 5 year budget what they will be doing and have put in a plant to match, the affect this has had is that their delivery lead times vary. They are fortunate, in that they have never got to the situation having been struggling for orders, their plant has always been used to full capacity, in as far as labour relations will allow, but there have always been orders to allow the plant to be used to full capacity, in as far as labour relations will allow, but there have always been orders to allow the plant to be used to full capacity. The only effect of the addition of new plant, is that the lead times have shortened from 5 months, to 3 months, to 2 months. By meeting demand they tend to generate demand, by an improved delivery performance, or as a generator, and they are now back to facing

a 5 monthly target. It would be foolish for Ferodo to say what the forecast is, in July, on forward lead times, because it could change fundamentally within 4 weeks.

Rank 3. Ability to use larger plan at lower capital cost.

They are trying to relate this to the EEC, but this they find difficult, and they had this planned before British membership of the EEC. EEC membership is a factor but they are not sure that it could be related directly to this.

Efficiency

The best allocation of Resources

Generally Ferodo could supply material for any make of car, truck, bus, any make of trunk of plant. That is running operational, and they have modified their operation quite considerably now they sell from a catalogue. They know what items they can make reasonably well, they know where they have problems, and so they try to duck out of supplying certain items altogether; they say "sorry we can't touch". 5 or 6 years ago they would have tried to make it, now they don't. They manufacture for the fast runners, they manufacture in materials which are easy to make, and which lend themselves to volume production, they don't entertain requests for special formulation material. If there is a material which they recommend, which they know they can make well, and cheaply, and which they can make in volume, that in itself is much more profitable.

Productivity Ratio

As far as total output per man is concerned, development work has been such that it has only increased marginally over the last 5 years. This is because during development work Ferodo have been establishing new job rates, and this has meant the bulk of the production has been carried through at standard work rates, and not on bonus.

The Advantages of Britain's entry into the EEC, in the case of the Company

Apart from the increased sales which the company expected, and which have materialised, the main advantage is getting an international image, and prestige, from association with European manufacturers; more than they get by isolation within this country. Selling only parts to British cars, and looking only at the U.K. market, with its reduced rate of British cars in relation to the vehicle population, would make them losers. By establishing European identity, and by having French, Swedes, Germans, Italians, talking familiarly about them, because Ferodo has original equipment in their countries, they get a reputation which they could not get as a purely U.K. supply, so Ferodo have tried to Europeanise their company. "They don't bother too much with the Americans, they don't bother trying to get original equipment on Chevorols or Bewicks, it is too difficult, unprofitable, and they could not meet the volume". European contact is vastly important to them, not only for sales, but for the other factor mentioned before, especially because it enables them to get into the Far East, the near East, and, particularly, into Africa.

In these markets, they can argue that they recommend such and such a model, and disc brake which is approved by Opel". "Opel know this lining, Opel accept this lining". This gives them a very good bargaining position, so it is an advantage.

To summarise this point, going into Europe and participating and being associated with other European companies will give them a prestige which can help them, henceforth, in the rest of the World.

They think there is a hidden benefit from knowing Europe, which they feel on the sales side. It is a question of saying that their Brakelines are right for VW, right for Scania Vagers, to be able to talk familiarly about Europe, having travelled and seen other

people in Europe. They don't think of France, particularly, in an industrial context, they consider it as part of the EEC, the French think of Britain still as an outsider, not in the sense they think of Germany, or Italy. So to be able to talk familiarly about German contacts, about one's German thinking, about one's French thinking, and so on, is very important.

The Disadvantages of Britain's entry into the EEC in the case of the Company.

There are none. The only disadvantage would be, of course, the competition on the import side to the U.K. but they are not getting such competition. They think this is exceptional to their particular industry of brake linings, they don't think it would be true of other components. The company thinks that if they were selling washing machines (consumer goods) they would not feel so happy as they are.

The Need for certain standards or qualifications to meet the requirements of the EEC Market, or the requirements of any legislation concerned.

The only exception would be in fan belts where the EEC countries, work in millimetres, and manufacturers stamp their fan belts with the millimetric size, which Ferodo don't do, this is a strong disadvantage, and they are losing sales on fan belts, for this reason. Where brake linings and disc brake clutches are concerned, they work by reference number not by size, Ferodo use the same reference number as the EEC do. Ferodo have developed, or formulated, a new brake lining, which is a very solid formation, but an adaptation formulation to meet the new EEC requirements, introduced about a year ago, and already on test in several European countries and known by them as the EEC lining. They shall be working very strictly to EEC legislation, and fight for the benefits of whatever materials are approved for EEC

application to be automatically passed on to their Home Market . The EEC lining is made specifically for the EEC Condition, with the backlash of home sales consumption, as home sales turnover is rather more than exports.

The export side about one third of the turnover, but the homes sales people would use the EEC formulations throughout.

The Need to build up new marketing and services facilities after the U.K. has joined the community.

Apart from the German office, in Europe, they think they have the best available in each of the EEC countries, of the fully national distributors, i.e. in Holland, Belgium and Italy.

Germany and France are exceptional, in terms of their exports, in comparison with Belgium and Holland. Exceptional for two reasons; first there is a very strong connection, the second that there is a very big domestic industry in competition with them in both countries. In the other markets they are very strong. Nation-wide they have vendors, with distributors, throughout the whole country.

Now, because Britain joined the EEC, Ferodo are more competitive (price-wise for tariff reduction) and will be increasingly so, Ferodo expect to get an increase, and this is where the 11-15% comes in with the Vendors. In Denmark they have a new Agent, and also they have agents in Belgium and Holland, and the partnership that they have operating in Italy. So in those markets there is no change of marketing facilities, as they have got the right people with the right distribution facilities at the moment.

In Germany, where they have had to meet the weight of the local manufacturers, they have had to get right in amongst them. Ferodo have a warehouse now in Germany in Visbahden, they have just opened up an office in Munich , and the possibility of another branch office to be opened in Hamburg, but not for manufacture, so ware-houses in Hamburg and Visbahden will be stocked for supplies for

Ferodo France, Ferodo England, Ferodo Spain, and Ferodo Italy.

The burden of additional work required after Britain's entry into the EEC

They have a section entirely devoted to liaison with Germany, a new responsibility added to the man in charge, who spends more and more time working with their German Manager, and has nothing else to do with the staff. He looks into German regulations and the EEC regulations particularly. So it is not involving a great deal of extra work, except to accommodate this arrangement with Germany. They would not be able to do this without their German staff, but having their regular German staff, there is a sort of co-ordination, they take the recommendations, and the regulations, that come in, and feed them to their assistant and see how it will affect their present thinking. They are acting as men on the spot.

Any other barriers to entry which are in force in any of the EEC countries by their national laws

The Germans used to have a Governmental Certificate for Brake Linings, which were required to pass the tests of the German standards, but in the EEC that has been phased out. With the membership of the EEC, Ferodo have had to change all their agency agreements to meet the EEC regulations (the non-exhibitry clauses etc.)

The Preparation the Company took to meet the requirements of the extended market, in the knowledge that the U.K. would join the community.

They didn't make any particular preparations, they didn't re-organise themselves for membership of the EEC, in terms of production, or investment in capital. There are changes in the German operation, and the Italian factory, but not in the U.K. In any event Ferodo took the decision to put in a new technology processing plant, the decision was made before they joined the EEC, probably even before the U.K. talked about the EEC. The decision

to invest was there, because worldwide sales had been buoyant, and the Directors always took the view that the long term need for friction was going to take place over at least a 20 year period. With EEC or no EEC, the capital investment had been made for much greater production. Ferodo increased the capacity, to increase production considerably in the existing plant, with investment in stock holding inventory in Europe. The scale of the Italian factory was increased, together with more involvement in other EEC countries, as a direct result of the EEC membership.

The Benefits the company obtained out of the trade agreements between the EEC and the other countries in the World

The company hasn't benefited out of these in fact the company lost from membership at the EEC. These areas used to be a British preference and have been superceded by this association with the EEC. So where they were able to supply to places such as East Africa, Trinidad, and Jamaica, at a price advantage; assuming their prices to be the same, then perhaps with a difference of 20% on the tariff, they have lost the price edge, which means they have lost a certain amount of appeal to European manufacturers. So that would be a disadvantage; "if they could have kept British preference, along with membership of the EEC, then that would have been better".

Another point of why the company hasn't benefited out of this agreement is that all the competitors are EEC members, on an international front. The Americans only export 6% of the products of friction materials, so they don't count, the Japanese haven't really gone into the sort of line that Ferodo are involved in, in any great scale, so the Company is only concerned with European manufacturers, and only with EEC manufacturers, there are none in Europe outside Their competition comes almost entirely from Denmark, U.K. and Germany. Those are the big retail friction material manufacturing centres on world exports, 50% of the world's brake linings

from the EEC.

The effect of the performance of the British economy during the last 3 years on the company's exports to the EEC.

The Company draws differences between the performance of the British economy and the movements in their own Trade. Their trade seems to have gone through two phases, about 4 years ago they found it pretty difficult to compete, because at that time the technological process was not in full swing, and Ferodo were making, to some extent, by "knife and fork methods". They felt competition, particularly from other EEC countries, where the investment in plants and the utilisation of labour, was of a pretty high order, and Ferodo found that those people would supply with low prices, and still make a reasonable profit return. When European countries started strengthening their economies against sterling, the situation swung to some extent in the Company's favour, but for a time they didn't take full advantage of the devaluation of sterling. They did take advantage of its cheapness and they did pretty well for a period, but this coincided with the increase in inflation in this country, with the high labour costs, the situation started to swing away from them again. The position right now is that, they take generally advantage of devaluation of currency straight waway, setting up distribution points, but this is going to take at least two or three years, to be able to get the best out of the market.

How the Company looks to its future in the EEC

They see, eventually, that the German operation will take a more dominant role in the EEC. They would say that probably in 4, 5, or 6 years time, there will be an increase in the staff in the German office, they are increasing in experience, and will take off a lot of Ferodo U.K.'s shoulders in co-ordination of selling in Europe generally. They would anticipate that the German sales staff might go into Belgium or Holland, which they don't do now. They would also go

outside the EEC, they might sell in Poland, in Iron Curtain countries or in Czechoslovakia, when they have greater expertise, and more time at their disposal. Now, the whole of their energies are bent in getting their German side organised, which to their mind, has the biggest potential market anywhere in Europe. So Ferodo don't see much change, except increased investment in Germany. The increased investment there is phenominal, mostly in terms of staff and building, so that is where most of the increase will be over the next 2 or 3 years.

In their Italian factory they don't think there will be much more investment for the future, but they know at the moment they have no further plans for manufacturing plants.

Regarding the future investment in terms of joint ventures; they have no plans in the EEC above and over what is already there (part of the equity of their Belgium distributors is about 40%, "20% Ferodo England and 20% Ferodo France" the other 60% is Belgian revenue).

<u>The effect of the state of the car industry, worldwide, and in the U.K, in particular on the export of the Company to the EEC.</u>

In 1973 after the oil crisis in the car trade, the company suffered cutbacks. The O.E.. contracts were vulnerable, there were cut-backs from the car manufacturers, but no cutbacks from the truck manufacturers; in fact they had an increased call from this area; but in terms of value sales in the EEC, excluding Britain, contracts went down. The U.K. market held up very well, Ferodo were compensated by an increased call for commercial vehicle components, but during the worst months they suffered badly from cancelled orders. However when a company has about a 28% share in original equipment, the fact that other markets stay fairly buoyant mean that the company can absorb that sort of loss for a limited period; and the future, at the moment, is pretty good. It is significant to

demonstrate the technological argument, that Peugeot, in France, have made a very substantial original equipment contract for Disc Brake purposes, against the French Company, manufacturing on their doorstep, because the French had no suitable material and Ferodo had.

The Harmonisation between the Company and its sisters in the competition side

Any competition with the sister companies is always done with the company's blessing. They know their Competitors have not the suitable materials the Company have. They are known internationally, Peugeot would probably approach them and say, "this is the new car we are designing, this is the existing car, this is the specification we want, what can you do". Peugeot would also ask Ferodo France what they can do. Theirs (Ferodo France) would not be accepted, Peugeot would prefer Ferodo U.K. to supply, rather than a German manufacturer, or another French manufacturer. So this would be done with the company's blessing, then, what would probably happen, is that the French factory would set out its formulation in France and with the company's knowledge and would know that after 18 months, or 2 years, the business would go back to them.

Competition Conditions in the EEC

The EEC competitors are pretty strong where vehicles of their own nationality are concerned, it would be pretty difficult for Ferodo to sell a lining for a Mercedes Truck. It could even be more difficult for them to sell a lining for a Mercedes truck in Holland, for a Mercedes truck in Sweden, which is non EEC. Ferodo have the advantage, especially where the Germans are concerned. German owners tend to go for German materials, this gives them an immediate entry into the market, through this German plant, Ferodo would say that is probably the only way to benefit.

EXPORT DATA OF THE COMPANY IN THE YEARS: 1970-1975

YEAR	EEC ONLY	WORLD TOTAL
1970	£ 926,470	£2,778,366
1971	1, 393,818	3,956,953
1972	1, 521,838	3, 782,376
1973	1, 899,412	4, 358,958
1974	1, 692,679	4, 738,702
1975	2,706,701	6, 180,665

CASE STUDY No. 14

COMPANY: Bendix Westinghouse Ltd.,

LOCATION: Bristol

CONTACT: J.W. AMOS

Marketing Services Manager

BENDIX WESTINGHOUSE LIMITED

BACKGROUND

Bendix Westinghouse is jointly owned by the Westinghouse Brake and Signal Company at Chippenham, England, and by the Bendix Corporation, in the U.S.A. Most of the drive comes from Bendix in the United States, they are in the automotive commercial vehicles market, in particular, for which they supply brakes. Now the Westinghouse interest is more in terms of investment, because they are not in the automotive market whilst Bendix are.

As with many of the world's largest, and most successful business concerns, the present-day Bendix-Westinghouse organisation started with two things - a man and an idea. In this case the man was George Westinghouse, and the idea was the realisation that air could be used to assist the braking of railway trains. The logical sequence was its modern adaption by the commercial vehicle industry.

The original Westinghouse Continuous Brake Company was founded in 1876 - in Trafford Park, Manchester.

After the First World War, the U.K. Westinghouse Company came to be financed entirely through British resources, and was responsible for sales of equipment throughout the old British Empire.

At this time the Company's interests were still mainly concentrated upon railways, although there was considerable diversification into such areas as braking systems for coal mining equipment.

After the second World War it was found that the railway systems of Europe had suffered extensive damage, in some areas obliterated. The American Forces left behind them vast quantities of motor vehicles, most of them fitted with what, by European standards, were sophisticated air brake systems - most of them based on the pioneering work of George Westinghouse. There was also a contemporaneous technological switch from manual mechanical to electrical and electronic signals. The problem was that spares for these systems were unobtainable except from American sources. When the

European commercial vehicle industry began to get on its feet again, manufacturers based their air brake designs on the American originals. However, they couldn't buy American equipment because of the chronic post-war shortage of dollars, and the need became apparent for an alternative, European-based source of supply.

Scandinavian manufacturers, based in Sweden, whose industry was virtually untouched by the War, had a head start, and the Westinghouse Brake and Signal Company seized the opportunity to form an Automotive Division, specifically to supply the needs of original manufacturers.

Unfortunately, the Westinghouse research and development programme was still geared primarily to the demands of the railway industry, and it became obvious that to succeed the Automotive Division had to become a completely autonomous company.

At the time the decision was taken, the Westinghouse Automotive Division was based at Chippenham in Wiltshire. When the old Douglas motor cycle company of Kingswood, Bristol got into difficulties, the opportunity to purchase this company, and its related automotive skills was too good to miss.

Douglas, was one of the honoured names in the history of two-wheeled transport. Enthusiasts will not need reminding of the famous Douglas horizontal twin engine machine produced after the end of the First World War.

Unfortunately for the Bristol company,, the challenge of the Midlands-based motor cycle manufacturers proved to be severe and permanent. By the late 1930's they were in some trouble, and during the war they turned completely to the sub-contract fabrication of aircraft equipment. After 1945, they never really re-entered motor cycle manufacture and marketing.

However, Douglas wasn't quite dead yet. Before purchase by Westinghouse, they had obtained the rights to manufacture the

successful Vespa scooter from the Italian Piaggio Company, and Westinghouse, decided to keep the Douglas interest going, selling the Vespa in parallel with the road brake operation, developing and manufacturing air brake equipment for the commercial vehicle field. Things went harmoniously for about eight years, during which time air pressure brake equipment was supplied to many individual truck builders in the United Kingdom such as E.R.F., Foden, Atkinson, together with Leyland, Guy, Scammell, Albion, and A.E.C. - who later emerged into the present day British Leyland Group.

In 1959, however, Westinghouse made the breakthrough into Export Markets that they had been seeking for years. They managed to sell air brake equipment on the Scandinavian market: first of all to Scania Vabis, and very rapidly thereafter to Volvo.

Westinghouse of America had long been associated with the Bendix Company because of mutual, and complementary, interests. Bendix had become well established in Europe, notably in France, Italy and Spain, and a foothold in the U.K. was something they wanted. Naturally, the British Westinghouse automotive operation came into consideration.

Not long afterwards, affairs in the United States reached the point where Westinghouse and Bendix decided to part company, because interests had started to diverge. Bendix considered that their future lay in the automotive field to a greater extent that did Westinghouse.

Bendix bought a half share in Westinghouse Automotive Division located in Bristol, and in 1970 the present Bendix Westinghouse company was formed in the U.K.

Nowadays, with an eye to the enhanced opportunities offered by the E.E.C., Bendix Westinghouse of Bristol - still occupying the old Douglas Motor Cycle site - receives assistance from the Bendix Europe organisation, which controls all Bendix activities in Europe, with its headquarters in Paris.

Bendix Europe are the only European company which can offer complete braking systems for all types of vehicles, from light cars to the heaviest commercial vehicle.
The American parent has a turnover of three billion dollars annually. This means that no one in braking systems can claim to be in a bigger league than Bendix Westinghouse.

OPERATIONS IN EUROPE

Bendix have manufacturing plants in France, Germany, and Spain, in addition to the U.K. They have sales offices in Italy, France, Belgium and Holland.
Bendix Westinghouse have manufacturing plants, or offices, on the mainland of Europe, and they also have associate companies which use their sales teams, and offices and distribution chain.

Nos. of Employees:

At Bristol they have a total of 1,300 employees.;

PRICING POLICY

It is a matter of a number of variables - a unique product, or a unique quality, or a time advantage over the competitors, (i.e. they have the introduction of a product available before their competitors, and they get as much for it as they can, the cost in this case is not the main factor). Obviously the company does not sell below it's total gross cost (manufacturing costs plus all other administrative overheads). Where they are on a straight competitive basis, somebody has an identical product in favour at the same time, then again they try to assess the market price (competitors' prices) accordingly, inevitably it comes down to cost plus the suitable margin. The procing policy, although it may be bared upon cost plus the competition condition in the market, is very much a matter of knowing the products, knowing costs, knowing competitors' products and price, and trying to draw the best line through them all

to get the business and make the right return on investment.

THE EFFECT OF BRITISH ENTRY INTO THE EEC ON THE PRICING POLICY OF THE COMPANY

Entry has changed the pricing policy, the company had examined the European market sometime before Britain's entry, "and it takes new values to get acceptance before Britain's entry, and it takes new values to get acceptance into this market." It involves the same basics of the pricing policy and this will continue to apply after entry. Where they are competing against a European Manufacturer, then obviously the company look at competitors prices to see how they can compete, as they have been doing in many instances. They know that their costs are lower than the competitors, and they can theoretically get business if it was immediately available. So it comes back to adapting products to meet the extended market (the EEC), and the setting of the pricing policy accordingly.

CAPACITY

They have had excess capacity, but because they have to adapt certain products, and design new products and gain acceptance of their products by EEC customers, they doubt whether having excess capacity has made much difference to them.
Their business takes time to build up a market, often they have to wait for a new vehicle to be designed, and start, with a buyer from the planning stage. Large or significant gains of business are not readily made.

DOES THE COMPANY MARKET OTHER PRODUCTS OTHER THAN THEIRS

They market products for their company and associated companies within Europe which they don't manufacture but are complimentary to their

product range. However, they only market products from within their group.

GROWTH OF THE TRADE

In the last 5 years they have made what they consider, and what a lot of people within the industry would consider, a success. They have had large orders made, against their competitors, from several major vehicles manufacturers.

PROFITABILITY

I quote: "It is satisfactory to the Lords and Masters in the States, regarding the return on the capital invested." They added that their "profitability compared to other companies in the industry is pretty good, it is not the best and it is by no means the worst. They have a pretty good profit before taxation and return on investment, and they have a pretty good track record compared to other companies within the Corporation, so their record is again successful."

RESEARCH AND DEVELOPMENT

The role of the R. & D. in the company is significant. They have access to a lot of R. & D. information coming from the United States, but now that they are part of Europe the requirements of the European Brake Standards are different to those of the United States. The British Vehicle Manufacturers market, and the European market, are different to elsewhere. The Company is looking to Europe, as is everyone else, and they have a large market within the U.K. tending to adapt European legislation. They have to insure that they are abreast of, and part of the policy forming team, for legislation. They have people on the S & MT Working Parties who advise the DOE and who sit on the Braking Committees in Belgium.

They have to cash in on this by having the backup of R & D to be able to substantiate policies, and to move with the market. Their's is a lively Research and Development activity, with a link to a computer centre at London University, besides their own computer within the plant. They needed the link for certain engineering calculations and for research . They have their own Research and Development Engineers, Research and Development shop, a phototype shop, their own environmental chamber, and a laboratory. They have their own research vehicle which bristles with electronics and equipment, and a test track. They take R & D very seriously and spend a lot on it.

ECONOMIES OF SCALES
ABILITY TO USE LARGER PLANT AT LOWER CAPITAL COST

Due to the UK entry into the European Community they applied for larger machines to reduce the unit cost on the products which they expect to sell successfully in the extended market.

LONGER PRODUCTION RUNS

That is tied in with the previous form of economy of scales. Where there is an existing product which they can sell in Europe this will enable them to have longer production runs. But they are still very much a "batch producing" type of company. They are more of a general purpose engineering company, as opposed to a car assembly plant.

GREATER SPECIALISATION OF LABOUR

They employ large numbers of what they classify as skilled craftsmen. B ecause they have a high engineering content, and a high safety factor, they have to work efficiently. They have quite sophisticated machinery throughout the plant requiring skilled setter operators and toolmakers, within their machine shops they have quite a high content of skilled tradesmen. They use semi-skilled workers for operating machines and assembly work.

ABILITY TO USE MORE SPECIALISED AND SOPHISTICATED EQUIPMENT

Wherever they feel that a specialist machine is better suited than a general purpose machine, if the money is available, they make the investment in that special purpose machine.

ABILITY TO ACHIEVE TECHNICAL ECONOMIES BY LINKING TOGETHER PROCESSES IN ONE PRODUCTION UNIT

They have done so in a couple of areas (a couple of product lines). Obviously as they have more success in Europe, which requires them to increase their volume output of a certain item, they will replan their machines shops to facilitate these types of flow lines. It is a matter of assessing what future demand is going to be, and the likelihood of success in certain items which would provide a long flow line of production. It involves a great deal of investment which has to be justified. They have to obtain clearance from Bendix in the United States when they want to make massive investment and this means satisfying their sales people, their production people, and their investment financiers, etc., before the company get the go-ahead.

ORGANISATIONAL ECONOMY OF SCALE, i.e. CONCENTRATING CONTROL OF A NUMBER OF PRODUCTION UNITS WITHIN ONE MANAGEMENT FRAMEWORK

They have certain areas where they pool products together, and machine and assembly, within a certain closely-knit community. So they would have concentrating control within that area. This was happening, and is continuing to happen, before Britain joined the EEC, and is not a result of joining.

ADVANTAGES OF BULK-BUYING

A company of their size buys certain things in large quantities and they gain economies of scale, an example is aluminium, which they use a great deal of. This is, however, relative, as some other companies in the UK would consider the company as being quite small, and would consider their bulk buys as not being very large.

BETTER DISTRIBUTION FACILITIES

They have split their market into 2 areas. The original equipment market - selling to the Vehicle Manufacturer when he builds the vehicle initially, and sales into the after market - spares. Within the UK, and in Europe, they sell the original equipment direct to the vehicle manufacturer. In the UK for the replacement market (spares), they have a series of distribution chains of independant distributors. That has not changed since Britain joined the EEC. Prior to joining the Community, before the Bendix companies really came together, they were using overseas independent agents, and certain associated companies. Since Britain joined Europe, and the Bendix companies came together, they still use their own agents, those they did not use before and now have the enhanced opportunity of their sister companies' facilities and distribution chain as well. Their distribution facilities have improved immensely.

EFFICIENCY
IMPROVED LEVEL OF OUTPUT PER MAN

It is very difficult to assess this factor, as since they joined the EEC, the country has gone through an economic recession, and productivity has gone down. It had to because they are not working at full capacity any more which is the only set back for their productivity ratio. Had the country not gone through a recession output might have improved marginally. They haven't had any industrial disputes to speak of, their productivity has tended to be good.

ATTRACTING AND EMPLOYING MANAGERIAL SKILL

Yes, they do experience the benefits associated with employing the highest managerial skills.

THE EVALUATION OF THE COMPANY'S ALLOCATIONS OF RESOURCES

They have had some setbacks, but no major ones. These were not

due to any internal reasons, but due to the economic situation.

HAD THE COMPANY TRADED BEFORE 1/1/73 WITH THE EEC COUNTRIES

Yes, it had.

HOW THE COMPANY EXPECTED THE EFFECT ON THEIR TRADE WITH THE EEC AFTER THE UK JOINED THE COMMUNITY

They expected there to be a beneficial effect when the UK entered the EEC in 1975.

THE QUANTIFICATION OF THE INCREASED SALES, THE COMPANY EXPECTED AFTER THE UK JOINED THE COMMUNITY

They are supplying brakes to commercial vehicles, and it is very difficult to get their equipment (brakes) onto a vehicle once it is being produced. They always reckon the time to get their equipment onto a vehicle is when it is going through an initial prototype stage. Although they expected an increase in their sales volume in the EEC, it was not quantified because it would take time. In addition to that their competitors on the mainland of Europe had "bent EEC legislation to suit their own products". When Britain joined the market the British vehicle had to meet EEC legislation on brakes, to have certain types of equipment on it. The company was at a disadvantage when Britain joined, having to start developing a new range of equipment to meet requirements, although they were aware of this befor hand, and were working along those lines. It has taken them 2 or 3 years to get everything moving, but they are now beginning to make inroads through having the right equipment available and also using their associate companies in Europe. At the moment it's still relatively small percentage of turnover, the increase would be between 0% and 5%, that is what had already materialized from 1973 to 1975. Over the next couple of years they expect the increase of sales to go up by between 5% and 10%. The companies that are acting in Europe, with backup from Bendix, have not been dealing with the market sector that

they have been in the UK. They are very much concerned with heavy vehicles in the UK, their products sold for heavy commercial vehicles, juggernauts. The majority of the Bendix Companies in Europe have been dealing with passenger cars, and light to medium weight commercial vehicles. They are having success, and there is no reason why they shouldn't continue to have success. Bendix are the only company (and they are talking about Bendix and not Westinghouse) in Europe, or group of companies, that can offer a total brake package, that goes down right to the foundation brake, i.e. the brake shoes and back plate. Within the Group as a whole, the group products compliment each other, they are not really in a competitive position with any of the Bendix companies in Europe.

THE POSITION OF THE COMPANY IN THE EEC MARKET HAD GREAT BRITAIN NOT JOINED THE COMMUNITY

The Company had a degree of success before 1/1/73. Had the UK not joined, it might have been slightly harder for the company, but they think they would have maintained their level prior to the entry - probably even increased it. Entry into the EEC, with the other interests of the Bendix Corporation, has certainly made it easier for them, penetration into the markets of the EEC countries had been made easier. They have access to a total range of complimentary equipment, in addition to access to nationals in their own countries. Boundaries still exist in the EEC, it has nine different languages, nine different currencies, and although it is a common community, there are still certain things that are uncommon, i.e. tradition, language, etc., and legislation.
"The company knows that a German customer will do business more happily with a German speaking national than he would with a German speaking English community".

HOW FAR THE ELIMINATION OF TARIFFS HELPED THE COMPANY'S TRADE IN THE EEC MARKET

I quote what the company stated in that connection: "It obviously

helps - becuase the tarrif comes down 25% each year but equally much. When we're part of the EFTA countries, which were relinquished when we became part of the Community, we did far more business with the EFTA countries than with the EEC countries, and we still do. So that is having some of our business at the moment with some of the old EFTA customers, and the Commonwealth, and traditional markets, but equally as much the alternative source of supply for our customers in the EFTA countries still basically is either America or Europe, so all we are probably doing is losing some degree of the advantages that we had previously." When the executive I interviewed has been asked if he could quantify the effect of the tariff reduction on their sales volume to the EEC countries, he answered, I quote: "No. Because we were doing very much beforehand, and what we have done since has been a combination of the Bendix family in Europe, the new range we developed of valves for EEC legislation, and also tariffs, - you can't tie that to one specific factor - it is a combination of all three or more, amongst it the value of the £ today ....."

HOW THE DEVALUATION OF THE £ AFFECTED THE COMPANY'S TRADE WITH THE EEC

The executive I interviewed valued that effect in the following. I quote: "I would say that the devaluation of the £ affected us marginally. The reason why I say that is because we, as a nation, are not self-sufficient in food and in raw materials. Every time the £ is dropped our import bill rises. The only thing that does not rise is labour, and that has risen as a direct result of the inflation which again is a direct result of the devaluation, or the floating down of the £. That was a general fact of that factor on the UK economy, but in the case of the company because we are a manufacturing company and we manufacture lots of our products in steel, aluminium, and rubber, and plastic parts, and all those I have listed, we are not self-sufficient. We do not produce anything

ourselves.....we have to buy everything. Our iron ore from Scandinavia, or wherever, aluminium from Canada, and other places, rubber from all around the tropical countries; the plastics are a direct product of the petrochemicals, and I don't need to expand on the problems that we experienced a few years ago on that. Though as far as that is concerned then all our raw materials are imported, but are worked on in the UK, hence it has indirect result. So the floating down of the £ gives us a temporary advantage, but it does not take the suppliers very long to say, the cost has gone up of this and that, so the cost goes up to ourselves, as such we have to pass on. We of course do not pass on the full cost because we have labour which is non import related, but it does reflect the rate of inflation, and you have only to consider the problems that we have had in the past with the Unions and wage awards to realise that you pass that on as well. Before very long, and being as an export market you don't have to work within the legislation of the UK government, only 50-80% of your labour costs, so we have tended to remain competitive but wherever possible keep our prices up, because we know only too well that with half of our production being directly exported, the profitability and the jobs of the people in this country depend on the profitability of that business, and it has to return the right sort of margins to make it all worth our while ..... and to stay in business."
There are other, smaller competitors in Germany and the UK. Clayton De Wandre has a larger turnover than Bendix, although they can't necessarily compete in a similar market, they go further down the commercial vehicle range, dealing with lighter vehicles than Bendix does. WABCO are more directly competitive on a product basis, and the Company would say that they are larger than themselves, as they have a wider manufacturing and market base - traditionally through France and Germany etc.

THE PENETRATIONS OF THE UK MARKET FROM FIRMS IN THE EEC

I quote the Company's view on this point: "Only very marginally.

The British manufacturer only brings out a new truck every 3-4, maybe even 10 years, so the chances of getting on to a new vehicle must revolve around the introduction of a new vehicle, or prior to the introduction - when they are going through a prototype stage. Now, as such, most UK manufacturers - with the exception of British Leyland for obvious reasons - have introduced new vehicles in the past 2 years - 18 months, and that is relatively close to when we joined the market and, as they have traditional valves on them, they are now putting vehicles up for type approval to meet the EEC legislation ..... and as such we are finding that ourselves, and Calyton, in the main can give them the right equipment to meet that approval - and therefore we are holding the European competition out of the UK.

THE MAIN OBSTACLES TO ENTRY INTO THE UK MARKET FROM FIRMS IN THE EEC COUNTRIES IN THE CASE OF THE COMPANY'S PRODUCTS

The technical requirements of the products could be considered, marginally, an obstacle to entry from firms in the EEC countries. The competitors from Europe can meet any requirements, but the vehicle manufacturers in Britain still prefers to deal with somebody that he has worked with for a long time, and who he knows has a relatively cheap product being made in the UK, comparable to the product that he would have to import from Europe. The EEC competitors have not yet made any great in-roads in to the UK manufacturing market.

Provided the EEC competitors can meet the technical requirements which are needed in the UK market, a question arises here which is, "What had prevented them from penetrating the UK market up to now? Is it a national preference or something else?"

The Company stated that there may be a degree of national preference but they wouldn't put it very high. They think that the timing for current measure vehicles, and the price, are probably the two main factors. As long as the price remains right the

quality remains right, and the Company can meet technical requirements, then they don't really see very much that they are going to change.

They can rely on dual sources for materials and keep their lines running if one or other of them fails - from within the UK - they don't "dual-source" UK and overseas. There are obvious problems if one has to import - if there is a dock strike a firm could easily fail. They can expect that the supply always will be maintained in the UK.

MAIN COMPETITORS IN THE EEC COUNTRIES

Their main competitor is Calyton de Wandere - they are Lincoln - based in the UK. They are not a major competitor of the Company in Europe, but are doing the same as the Company does, opening offices, and expanding business. The main competitor in Europe would be WABCO, the Westinghouse Air Brake Company, which is centred in Germany. They have manufacturing offices in France, Holland, Sweden, and so on.

VARIATIONS OF THE COMPETITION CONDITION IN EACH OF THE EEC COUNTRIES

The company believe that there are minor variations which are not significant, in price, due to buyers power, purchasers power, or a preference in one country which might put a slightly different value on an item than in aother country. It is purely a qualitative assessment issue, but the pricing policies throughout Europe for their competition is pretty steady - slight variations between countries, but very similar.

SPECIAL FEATURES THE COMPANY POSSESS WHICH GIVE IT A SPECIAL PLACE IN THE MARKET

They have access to research and development facilities, which are massive compared to other companies within the UK. The Bendix Corporation has a turnover of 3,000 billion dollars, the Company has access to their licences, and has taken out licences

with other successful developers of brake equipment, from the United States, and Europe. They also design and manufacture equipment themselves, and where possible take out patents for them to protect their interest. When they compare their product with that of their competitors they like to think they have a product of superior quality and reliability. It needs to be when they are mass producing an item for the environment trucks operate in, but it can only be as good as the maintenance that it gets.

They have certain products within their range in which they are very strong, and if they stopped producing it could have serious repercussions. There is nowhere within their product range that they have come up against a monopoly commission, so presumably they don't fall into the classification of monopoly.

THE HARMONISATION BETWEEN THE COMPANY AND THE SISTER COMPANIES IN EUROPE

None of the sister companies clash on products, they are complimentary. There is no great problem as far as pricing is concerned, because they discuss pricing policy within the Group. When sister companies are selling one of their products in the UK, they work out their price in the same way they would when selling the Company's products, when the two companies agree upon what to share as far as pricing and profitability are concerned. When it comes to training, they train each other in their products, and give support that is necessary, but as the sister companies become conversant with their products, and the Company similarly with theirs, the training and the support that they all need decreases.

THE MODIFICATIONS THE COMPANY HAD TO APPLY TO ITS PRODUCTS TO MEET THE REQUIREMENTS OF THE EXTENDED MARKET

The Company had to adapt its products to a combination of modifications, which consists of all the elements which could be applied:

- Minor change

- Major change
- Completely new products

Some products they have been able to sell as they are, some products they have had to make minor adjustments to - to metricate thread sizes as opposed to the old Imperial NPTF, and there are products that they have had to design specifically for the European market in order to meet EEC legislation. They have to meet the EEC requirements to satisfy the vehicle manufacturer and (for him and for his vehicle) to meet the legislation. As far as the customer is concerned, they have had to become more European minded, in language, customs, business practice, and traditions. As Bendix has companies in Europe they have been able to talk to, and hear from, people who are already operating in that environment, who have the knowledge and the expertise to help the Company.

THE NEW DISTRIBUTION FACILITIES THE COMPANY BUILT TO MEET THE REQUIREMENTS OF THE EXTENDED MARKET BESIDE USING THE AFFILIATED COMPANIES FACILITIES

The Company hasn't built its own distribution or sales facilities in the EEC. As explained before they have increased their Export Department force, using offices and staff of the various companies within Europe. They are not fully conversant with products of their sister companies are not manufacturing, so they need a degree of help and training, which their sister companies give them. In the same way they have been training staff from Europe in their products.

THE INVESTMENT THE COMPANY UNDERTOOK IN ANY OF THE EEC COUNTRIES AFTER THE UK ENTRY

Bendix Westinghouse Ltd., as a company, made no investment. The investment has come from Bendix in the USA.

THE PREPARATIONS THE COMPANY UNDERTOOK TO MEET THE EXTENDED MARKET IN THE KNOWLEDGE THAT THE THE UK WOULD JOIN THE COMMUNITY

The Company was aware of the UK joining the market, so they

were looking to see what was required to meet EEC legislation. They were involved in their own research and development programme to meet new legislation, which, to a certain extent, is still going on. In the first couple of years (before 1973) their investment was more in market research, and not in machinery. They worked on the assumption that general purpose machinery would cover the requirements for valves for the EEC. As they went along they realised they had to make specific investment, and that happened after the UK entry. They have made investment since, and will continue to do so.

Regarding the organisational restructure needed prior to the entry, to meet the extended market, the company stated that:

a) Production restructure, they have one plant and several machine shops, some general purpose machine shops, special purpose machine shops, and assembly areas. Everything, for EEC or UK consumption, now goes basically through the same process.

b) Regarding the selling organisation structure; they have strengthened their export sales team - they have produced literature to meet the requirements of the European market, in the correct language for example. They have not actually set up one area to look after the enlarged market. They had an export sales department before, and they have the same one now. All they have done is to strengthen it in line with what they assess their needs are to meet the enlarged market. As they stated before, they are able to use the Bendix companies throughout Europe, their sales teams, and an exchange of training facilities;

c) Regarding the marketing function structure, which is linked with the selling function. First and foremost they decide to do market research to assess what is being manufactured in Europe, what the volumes are, and who is producing what. The result was that they needed new valves to meet legislation. It was indicated that they needed a larger export department, so they increased it, and they gave them all the support and facilities needed, in the way

of literature, aids, back-up, etc. That department is only used to aid their sister companies in Europe. In the day to day running of things they act on the UK plant's behalf, they use their own staff and marketing aids, they train them and adapt literature and aids to meet the UK requirements. Then the UK plant acts on the sister company's behalf in the UK. It is very much integrated. There is a total Bendix concept throughout Europe, and marketing men travel between each other all the time, helping each other out, introducing their associates to companies in the UK, and acting as go-betweens. It is a very complex situation.

d) Regarding the marketing methods and their adaptations to meet the extended market; Joining Europe is co-incidental to Bendix's investment in Europe, and the coming together of the sister companies. Even if Britain hadn't joined the Community it would still have happened, but there probably would not have been the same success. All the company has done is lashed onto, and used, other peoples marketing know-how and effort, in their own particular market sector and country. Their methods of marketing are just the same but the co-operation between themselves and other sister companies is much closer.

THE MAIN OBSTACLES TO ENTRY INTO THE EEC MARKETS RELATING TO THE COMPANY'S PRODUCTS

Besides the obvious barrier to entry (the tariff duties) which has been abolished gradually (up to July 1977 when it will be at a zero rate) ....., the company sees that other barriers to entry are as follows:

a) Nationalistic approach

b) Not having the right equipment at the time of the entry

THE COMPANY OVERCAME THESE OBSTACLES BY THE FOLLOWING:

a) Having now the right equipment for the EEC market.

b) They operate from relatively low-cost base manufacturing plants.

c) They have their lengthy relationship with the Bendix family in Europe, which helped them to use their sales force, distribution facilities, and market research. It helped them also in using Bendix contacts with the car manufacturing industries in Europe, especially as they are national employees.

THE DISADVANTAGES, IF THERE ARE ANY, IN THE CASE OF THE COMPANY, OF BRITAIN'S ENTRY INTO THE EEC

I quote the Company's view on this point: "Well there are not any real disadvantages now, apart from being able, perhaps, to supply in the volumes they require. You go from - in the past - the UK industry, the old British Empire and Commonwealth countries and EFTA. Now our entry to Europe meant this: our market place was more than doubled overnight. Now obviously the success in that area depends on having the right products, at the right price, at the right time, and being able to supply it in the right volumes. Now as a company we have basically run pretty well to full capacity, so penetration in Europe is dependent on us making investment. Now we have made a lot of in vestment in this company and we continue to go on - but to make a significant in-road into Europe would mean a massive investment which takes time, and you have to justify to your lords and masters that it is going to show the right return etc. - it is coming along but it all takes time. We did not kid ourselves into believing that overnight, and even within 2 or 3 years, that we were going to march into Europe and just sweep everybody aside. It just isn't done that way. Come back in 10 years and we may be able to look back over 10 years and say well, in actual fact we have been able to achieve that amount".

THE BENEFITS THE COMPANY OBTAINED OUT OF THE TRADE AGREEMENTS WHICH TOOK PLACE BETWEEN THE EEC AND ITS ASSOCIATES OR OTHER COUNTRIES

They have benefited to a degree in Spain, they anticipate that Spain will join the community before very long. It is difficult to say

whether that was the result of joining the community as Bendix has a company in Spain as well. They are now having success in Algeria, but that is more as a direct result of their French Sister Company's contacts, and long standing experience in Algeria. With the African countries the company would not say that they had benefited up to now. At the moment they have had success in the traditional Commonwealth countries in Africa, there is an associate company in South Africa. However with the French and Dutch countries in Africa, with the exception of Algeria, they would say at the moment they have not benefited a great deal. "Since joining the community the whole world has plunged into recession, so it was not the best climate to make inroads into a market, when the markets are contracting and people don't have the money to pay for expensive imports etc".

THE EFFECT OF THE PERFORMANCE OF THE UK ECONOMY ON THE PERFORMANCE OF THE COMPANY

I quote the Company's view on that point: "Irrespective of whether the British economy had been in the slump, or whether it had not been in the slump, the effects in those couple of years really made very little difference, purely because they had a very small amount of business with the community. That is the reason they were only talking about increased sales due to the entry in the percentage of 0-5, possibly going to 5-10".

THE EFFECT OF THE STATE OF THE CAR INDUSTRY ON THE PERFORMANCE OF THE COMPANY

They are not a component supplier to the industry, but they are a component supplier to the commercial vehicle side, particularly to the heavy end of the market. It obviously had an effect upon them because, overnight, fuel costs quadrupled. But they think

" it made people who were moving goods around think that it may be better to invest in a larger vehicle, instead of many smaller ones. With the oil prices increase the Common Market slumped and the light van and truck market tended to follow it down being part of the economy. But the heavy truck market stayed buoyant 12 months after that. Then it started to collapse as the whole economy eventually affected that end of the market and the movement of larger types of goods. No sooner had oil prices gone up than it affected the economy, consumer purchasing power, then it gets all the way the line to the machine tool in the heavy plant industry etc. It will have an equal 'lag effect', when the economy picks up."

THE COMPANY, THE FUTURE AND ITS PLANS IN THE EEC

I quote: "The future of the company I would say is good, sound, and we shall continue to make in-roads into the UK market, and we shall certainly make in-roads into the European market. But it will be in concert with, and as a direct result of, the total Bendix approach to European marketing. There are certain aspects that will be a direct result of Bendix Westinghouse, but it will be part of a total corporate intention. And the efforts of the Group will help us in the EEC."

CASE STUDY No. 15

COMPANY: FODEN LTD.

LOCATION: Sandbach, Cheshire

CONTACT: G.H. Pickering

Asst. to General Sales Manager (EEC)

FODEN LTD

Background

Foden is one of the world's oldest established vehicle manufacturers. Since 1856 they have played a responsible and leading part in the development of the international road haulage industry.

Edwin Foden, founder of the company, and a transport pioneer, established high standards of engineering quality and customer relationships - standards which are still maintained today and which will be maintained in the years to come.

Their first products were steam traction engines. As industry developed, they introduced a range of steam haulage vehicles, which were always considered to be - and often proved to be - in the company's opinion - the best on the road.

In 1931 legislation made mandatory the change from steam to diesel power. Foden made that transition successfully, introducing a comprehensive range of high quality diesel engined vehicles. Today's range of vehicles - extend from 20 to 100 tons gross weight.

There are still members of the Foden family on the board of directors.

Their main manufacturing facility is located in "Sandbach", Cheshire. They have supporting branches throughout the United Kingdom, interest in subsidiary operations in South Africa, Australia, Canada and Europe, and on international network of representatives.

The company has over 3,000 employees.

Main activities

They are the production of commercial vehicles and dump trucks.

They produce, also a few engines for the Admiralty.

Areas of Marketing

The main area of marketing is the U.K., as a percentage they put 80% of their production in the U.K. market, and 20% for export.

The main area for exports is the Middle East.

Who handles the sales

The sales are handled through distributors and agents, both in the U.K. and abroad.

The Marketing and sales function structure

There is a chief executive, responsible for the whole operations of Foden. Under him there is a sales director, and a production director.

Under the sales director there is a general sales manager, responsible for the marketing in the U.K. and the EEC.

There is also a second sales manager who is responsible for the sales in the ROW.

The marketing function and the sales function are inter-related. Under each of the general sales managers there is a marketing man who is responsible for the promotions, and exploration, of markets.

Main Competitors & Competition Condition

In the U.K. it depends on the type of vehicles we are considering. If it concerns the tractor unit, their main competitor is Volvo.

In the EEC countries their main competitor is "Mercedes".

As far as the EEC is concerned, they have just produced a range of vehicles designed specifically for that market, they will begin to market them from July, 1976.

The channels of distribution are identical with their competitors. The competition condition does vary from country to country. They started in Holland by doing an investigation, with the help of their agent over there, into which vehicles they should concentrate on selling. They found there was a need for four axle machines, they had not built any and had never considered them. They started doing business with Holland in that vehicle in early 1975.

Pricing Policy

They work on a theoretical minimum cost plus pricing policy. Then with the help of agents, they survey the competition, and determine at what price they will sell their vehicles. Very often it is a compromise between the theoretical price and the competitors price.

Their product is rather expensive and is always built to a specification and not to a price, so it is always on the top side of the market. They work almost in a cost plus bases throughout all their marketing.

Growth of trade in the last five years

In 1970 - 1973, they had an increase in business, increasing their share of the market. In 1974-1975 there was a sudden downturn in the market and things became very tight. This started when the price of fuel dramatically increased.

They are now at the bottom of the curve and are beginning to see a small increase in business.

Special Features:

Diversification: They are an independent company, they have no ties with any other company. They produce 80% of their requirement of components. They usually buy the engines from outside, Commins, R.R., or Gardeners. All other parts are made at their plant, and so they have control or quality, being better able to maintain a high quality.

"This is a selling advantage, the customers know that if they want spare parts, all they do is come back to the company."

Experiences

The depth of their experience is helping them; from 1931 they were building diesel engines, about as long as any one in this country.

Their experience does effect the performance of their vehicles and, therefore, the demand attached to them.

Regarding the four axle machine vehicles, they hold 32% of the U.K. market. "With such a big share, people must find them good to buy, and continue buying them."

R & D

They have had their own department since 1944. It is playing a considerable part in the quality of their vehicles.

They have their own design department which always produce proto-type which they use in experiments.

They use the facilities of other research units.

Capacity

They have a non production unit which has been built for two years (since 1974). It has a capacity of 120 units per week, but now operates at about 60 units a week. They have no place to use the spare capacity at this time; the capacity of the rest of the works is only 60 units (i.e. available capacity 180 P.W. used 120, spare 60).

They spent over £5 m. on the new plant, reputed to be the most modern in Europe (The designers and builders were Swedish).

The components production units are a bottle neck. The company needs to increase the size of their machine shops. This they are doint to meet the requirements of the new plant.

Preparation for approaching a new market:

They have information sent to them from outside sources, giving them market potential, sizes, and trends. They interpret their possible share of the market according to this information, and according to the specifications of the demand. They haven't their own market research people, they depend on outsiders. Market research is fully covered in the U.K., but in the EEC, and other markets, they are short of information.

As an old, traditional, company, they are changing to modern requirements, but slowly.

Profitability:

It is less than satisfactory. One of the reasons was the new plant. It started producing about 60 vehicles P.W., just 4 week later, the market suddenly dived, and they were left to find the bank charges, which are high. So they are producing less than capacity, and have not covered the return on investment.

So, the profitability now is not that good.

Marketing other Products

For a while they marketed a German truck. They are still marketing it, but intend to stop in the near future. It represents 3% of their total sale, but is now very expensive to market, because of the declining of the £ .

Modifications to Products

They always build their engines to standard specifications, to keep their production line moving quickly and smoothly. If any modifications are needed by the customers, their agents, or distributors, do it on their premises.

Their brand name (Foden)

They have a brand name which help their sales. It is an old and reputable name especially in the U.K.
In Holland, where they were 16 years ago, they had a good name. As they have gone back into this market, people still remember "Foden".

The Performance of the Company in relation to the EEC Market

Prior to Britain's access to the Community (1970-1972)

They were doing practically nothing.

After Britain's entry into the Community (1973-1975)

They were slow to enter the EEC market. They had an agent in France prior to Britain's entry, for a number of years, but they never sold anything there. This cost them a lot of money, and made the company cautious in appointing distributors to France, the distributer they had was bad.

Since, they had access to the EEC they have begun to set up a series of distributors, and they intend to provide them with the right vehicles of the correct specifications.
The new vehicles they are producing for the EEC market are very much home based vehicles, which could be serviced locally through the distributors. They have no need of building a net work service for them, which anyway is beyond their means as they are a relatively small company, unlike British Leyland.
So, they produce the right vehicle for the market to avoid costs of follow up services.

Elimination of Tariffs and its effect on Sales

" It has been great help, especially when it gets down to zero rate in the middle of 1977".

Devaluation of the £s and its effect

The devaluation of the pound effected their sales to a greater extent than the elimination of tariffs. The tariffs, were around 5% compared to devaluation, which means that their vehicles would be cheaper in the export market.

Some points from the Questionnaire

Expectation of sales increase due to tariffs elimination 25%

What had materialised

Since the Questionnaire was filled in, the increase which should have fulfilled this expectation did not materialise. They have not the vehicles ready until June, July, 1975.
Because they built the new plant, and then suffered a down turn in the U.K. market, they became short of capital. They had to meet bank charges for the new plant and yet had built nothing on it, so they had to go to the city to raise money. Many

projects had to be put back, and the EEC project was one of these.

From, 1973 - 1974 the increase of sales to the EEC market was nil. In 1975 they began to sell some trucks in Holland. The volume of sales was about 3% of their total.

The expectation of sales in 1976-1980 is about a 12% increase. When the unit of trucks will be available, they expect, in 1978, an increase in terms of 22%

Other advantages

They foresaw that the potential of the new plant was such that they would not have enough orders from the U.K. to fill it, so they looked to other areas, one of which was the EEC market.

Their internal economies of scale will be reached by the potential sales to the market.

The preparation they undertook for the new market

Regarding Production

They looked at the vehicles specifications of the EEC countries (Homolagation process), to decide which of their vehicles fitted them, what they need to do to change their vehicles, what market there is for a particular model, what their potential is, what is the price that has been asked for by their competitors (Mercedes or others), and if they could build vehicles at that price.

Organisational Change

They have started off by creating a new post, a general sales manager, responsible for the EEC. They appointed a manager, based in Germany, responsible for the total marketing concept in the EEC, he is German.

Competition in the EEC

They are facing competition in the EEC coming from Germany, France and Italy (and from Sweden as an outsider).
It is very difficult to penetrate the Italian market, the company have a right hand drive among their trucks, to suit the Italian market, but it is very difficult to establish a foothold there. The reason for that could be attributed to a nationalistic feeling.
The Germans and the French have penetrated the U.K. market, but not to a very great extent. The German's , Mercedes, man, have a very small percentage of the market, which has not affected Fodens share. The foreign companies took their share of the market from Leylands.

Economies of Sale:

Ref. The Questionnaire

Longer production run. They have not experienced this sort of economy of scale, because of the capacity in use. When they have, the vehicle contracts available, they will be able to experience economies through longer production runs.

Linking together more than one production unit:

They do not experience this at the moment.

Economies of bulk buying

It works in theory, but what they have found is, that it is dangerous to concentrate their buying from one supplier, to get the economies, as they might face the problems of short supply. So they depend on several suppliers for their components, they lose the economies of bulk buying, but gain in insuring that their production line is always running.
There is a side benefit from this, that if a supplier knows

they get supplies from somewhere else, as well as from him, it keeps him worrying about delivery, his price, etc.

Ability to use the most technical advanced equipment

Yes and no. They are in the process of re-equiping the machine shops with the latest machines with a computer control able to produce without a man touching the machine.
The whole organisation is centralized around feeding the new plant.

Ability to use larger plant at lower capital cost:

"Yes, this is true, because at the inflation which took place, the cost of the new plant would be 6m instead of 3m."
If they utilize this line fully, they can save in spreading the overheads.

Marketing economies

They do not experience economies of this form.

Productivity (Output per man)

This improved, due to the new machinery fitted in the new plant (To fit an engine into the chassis a man used to need 1 hour and four minutes, now it takes only 4 minutes).

Best allocation of resources

They are reassessing the utilisation of the factors of production as they think they are not efficient enough.
Basically, they are an old company modernising itself in every aspect.

Other barriers to entry into the EEC in the case of the company:

Nationalistic feelings:
They experienced these in Germany, France and Italy. (Documentation sent to them from France is always sent in French, which makes it more difficult for them). Holland is pro-British.

Harmonization of the products to meet European Standards
They are in the process of doing this (e.g. All their drawings of vehicles are now done in metrics).

Documentation
"The burden of the documentation required by the European commission is irritating".

National requirement on health, safety and Consumer Protection
They are changing some of the products to meet the requirements of the EEC.
Unless they build vehicles according to the direction of the EEC, , which meet the home legislation of the country involved, they are not allowed to export there. That is, until they pass the required test, and receive a certificate which shows that they are following the requirement.
The requirements do differ from one country to another in the EEC, the most demanding is Germany, and the least Holland.

Access to the larger market, the knowledge that national barriers are lifted, and never reimposed, provides the long term security which the British business needs for investment required to obtain economies of scale and greater efficiency and competition position:

The implications of this statement in the company's case is that they are secure enough to change their products to meet the commission requirement. They are able through the CBI and the British representative to impose their thinking and standards on the commission. This enables them to plan the steps taken to be in the larger market.

They are now producing vehicles which will be accepted throughout the 9 states. Before they were only producing for the U.K. market and exports to the EEC countries were left to chance as an added bonus.

Injecting investment to increase their sales to the EEC

This is valid in the case of the company, by building the new plant to meet the potential demand they foresee.

Joint ventures in the EEC

They have looked at possible joint ventures with a company in France, but it is only being discussed. The difficulty, in the case of the potential French partner, is that their range of products cuts across the company's.

They are looking for a joint business with one who make something to complete their range. Smaller vehicles for instance, someone who can divercify their products.

Setting up Warehouses and Subsidiaries in the EEC:

Apart from the distributors, who have their own identities, they

are not thinking of establishing their own subsidiaries except for an office in Norwich.

The restruction of their operation to be competitive as a European Company

They are beginning to be more European in their outlook. 'The long term prospects are good as the company are appointing a new generation of executives, who think European rather than British."

The benefits gained due to the agreements between the Community and their associated countries

They have not yet, found any benefits from this.

Exports to the ROW

In North and South America they have none. In the commonwealth countries they have agents in Australia, New Zealand, and South Africa, these exports are around 4% of their total sales in the Middle East they have a considerable business, especially to Saudi Arabia. Total exports are 30% of their total sale.

Summary of their performance in the EEC:

Prior Britains entry 1970 - 1972

Before Britain joined the EEC they experienced a considerable tariff duty, and completed by producing non left hand drive vehicles; they intended to forget the EEC market. They sold nothing to the EEC countries in this period, and considered that to produce vehicles for that market would cost too much, plus the amount needed to build a service network, "so they forgot it."

After Britain's access to the EEC (1973 - 1975)

After the gradual elimination of tariffs, and injecting their organisation with the new blood of executives,they changed their attitude towards exports. They saw the potential opportunity and grasped it.

They decided to build trucks to sell in the EEC, so they had to have a line to build them on. They built the new plant. But as they had to have a good home market first, they were careful about eexpenditure; because of the downturn of the home market, they had to shelve the European project. Now they are getting capital, which will enable them to market to the EEC.

From the time the cost of fuel escalated, there was a down-turn in the number of vehicles required. Because fuel was so expensive, for the operator, he decided to make his vehicles last longer, he did not buy replacements, and the company did not build new vehicles, but were stuck with banking costs.

Looking ahead (1976-1980)

Now, with the new plant they are in a very good position to take advantage of the larger market, and the prospects look good. With the new plant they are able to build a quality product at a competitive price.

VEHICLES EXPORTED

IN THE YEARS 1971 - 1975

a. Total Export

1971	281 Vehicles	1,857
1972	174 "	1,165
1973	239 "	1,732
1974	236 "	2,242
1975	454 "	5,145

b. of which, over these five years, all the vehicles sold into the EEC countries were delivered in 1975, and amounted to some 7 vehicles with a value of £75,000.

CASE STUDY No. 16

COMPANY: CAM GEARS LTD. (Hitchin)

LOCATION: HITCHEN, HERTS.

CONTACT: Sales Dept.

Cam Gears Ltd., Hitchen

Company Background

Cam Gears are part of a U.S. multinational company called TRW. This company is involved in producing a diverse range of electronics and space equipment. In the U.K. Cam Gears produce gears for cars and ancillary products associated with steering gears for farm and commercial vehicles and cars. The company started in 1940 and acquired engineering products of clevedon in the 60's which were amalgamated into Cam Gears. The company operates in the U.K. from four factorys which each specialize in separate manufacturer ranges.

These are:-

Resolen Factory, Somerset

This factory produces manual steering gears which are the most widely used form of steering in the UK and Europe. The company also manufacturers power steering and ancillary equipment associated with steering such as steering rods.

Luton Factory, Bedfordshire

This factory makes what is termed DCIU units which can be added to change driving from manual to power steering on all types of commercial vehicles.

Hitchen Factory, Hertfordshire

This is the factory visited in the case study and make manual truck and tractor steering by traditional methods.

The relationship between the factorys and Head Office in Hitchen is that the H/O controls the sales force, finance, quality control as a central function while each factory operates and deals with its own manufacture controls.

The Marketing and Sales Fu nction

(A) Marketing Function

The company do not operate a formal sales and marketing organisation. This is because the company does not sell, but manufactures according to customers requirements in the case of

major vehicle manufacturers such as Ford, Chrysler, and British Leyland.

The company operates on the basis of forecasting customer requirements backed with P.R. and advertising.

For example in presenting a new innovation such as a new type of steering. This will be presented to different organizations by a technical presentation by the engineering department backed up with literature covering all the technical factors illustrated with drawings and specifications and prices.

The company carrys out two marketing functions namely:

1) Forecasting future requirements from existing customers.

2) Potential future developments using P.R. (literature) to back up the presentation also to guage future potential for the new innovation.

(B) Sales Function

The Sales Director has a sales manager and five sales (Account) executives. These executives each deal with a key manufacturer i.e. Fords. This function is backed up by sales administrators who deal with the correspondence, routine matters between company and client.

Company Turnover

1974 30 million pounds in total.

Exports represent 12 million pounds.

Home " 18 million pounds.

Home and Overseas Sales

The home sales represent 18 million pounds. The U.S.A. is the main export market where they sell to Ford Company the manual gear changes. This represents sales of 5 million pounds per year. The next largest market is Sweden £4 million and then Germany. Ford Germany also take the manual gear change. After that exports

are made to a number of markets but the sales are not significant in monetary terms. As can be noted from the sales structure the export and home sales are by customer and not by market.

Overseas Companies - Europe

TRW has companies in Italy, Spain, Germany and France. Each company produces different types of steering gears. This means it is possible to sell U.K. gears directly to the main manufacturer in that country even though that local factory will be dealing direct with the same customer. "For example we supply Volvo in Sweden and Ford in Germany so does the Stalion Company. These sales are handled by our Sales Account Executive who is able to work in close conjunction with the manufacturer he is responsible for i.e. Ford."

Main European Competitors

In the UK Burnwoods of Birmingham are the main competitors as this company makes identical products to Cam Gears. Another specialized competitor in the U.K. makes power steering gears. These are the only two competitors in the U.K.
The main competitor in the E.E.C. is the vehicle manufacturer themselves who produce 'in-house' products. In fact between 70-80% of steering gears in the E.E.C. are made by the vehicle manufacturers. "This means the balance is supplied by ourselves or Burnwoods of Birmingham and Cam Italic the only real competitor to us (outside the manufacturers of vehicles) Cam also compete with us also in our Home Market."

THE COMPETITIVE CONDITION IN THE EEC

A car or truck manufacturer when he designs a new model will ask us to quote along with other competitors including the manufacturers own 'in-house' department."
The company will consider many factors in quoting namely 1) price 2) delivery time 3) product reliability. The quotations will be on a basis of quantity over a given time. Our quotations

are on a cost plus b asis. Sometimes you are given a second chance to quote but normally you don't. Each quotation is dealt with on its own merit. If we get the contract this will be kept to as it would be to expensive for the buyer to consider changing his supplier say half way through the contract as the cost would be substantial.

The company also believes that it is better than its competitors due to having a great deal more experience. Likewise while it is possible to cover the products produced by patent it is on the whole not possible to fully patent the product only parts after all who could patent a wheel. These two factors also help in influencing the manufacturer when he quotes a tender.

Future Company Potential

Due to the economic situation which has resulted in the car industry not expanding at the rate which the industry had assumed. This being due to the oil crisis which have increased is now costs from consumer to manufacturer the company is now looking to diversify. But so far have not found anything suitable.

The company believes that to diversify will be by acquisition and this is very much longer term strategy and could take up to five years before the move is made.

Capacity in Use

It is estimated that every vehicle manufacturer has spare capacity. It is thought that currently only 80% capacity is being utilized.

The preparation carried out by the company in seeking new markets

As the company supplies only 20 customers. By close liason by the Account Executives each company is aware of what Cam Gears has to offer. Likewise it gets the opportunity to quote for any new models. Consequently the market is limited by the number of customers available in this industry.

Profitability

Stated to be satisfactory and sufficient.

Marketing other products

The company does not really market other products but offers components on existing products. This means we sell gears as spare parts.

The company plans to buy from the U.S.A. company components to make a certain type of gear, which in turn would eventually be manufactured here.

The company itself makes 2/3 of its own requirements to make a gear and buys in the other components required. As a gear is highly complex and requires hundreds of different sizes of pieces of components the manufacturer of a gear is highly complex. This is why the market is limited in selling component parts.

Brand Name

"In our industry this is not necessary as we supply direct to the vehicle manufacturer for use in his product".

Research and Development

"This is an extremely important part of the companies operation. To stay ahead of our competitors we have to invest so as to ensure that we have the latest technological advantage. The company carrys out research only for its own organisation."

The effects of the elimination of tariffs on the company's trade

This has very little effect as the customer buys for a combination of reasons ranging from quality, reliability, type of gear and 10% tariff will make no difference. Especially with the way the pound sterling has been devalued in comparison to the effect of the tariff.

The other effects in the case of the company of Britain's entry into the EEC rather than the elimination of tariffs:-

The entry of the UK into the EEC has made little difference to the company's performance. They have been dealing with people in Europe before the U.K. joined the Common Market and they continue to deal with them now.

A - The need to adapt special standards according to the requirements of the market or the EEC legislations concerned:

The company hasn't experienced the need for that change because if a European manufacturer wants to design a steering gear for a car or a truck he will lay down exact specifications which will be made just for him. If a UK manufacturer comes along and wants a steering gear for his truck or car, the company will design it specially for him. They deal with the engineers of the various companies and if they want a gear, the specialists in Cam will work with them when they design their car or truck.

B - The need to create a new services and marketing facility for the EEC market

The company has got already all the facilities it needs in the EEC market so there was no need to adapt any new facilities after the UK entry.

C - Harmonisation in the products side

The company were working before to universal specification and standards, so there has been no need to adapt to a new standard.

D - The burden of the additional work concerned

The company has not been affected in this regard at all.

E - The national laws regarding safety or environmental conditions

The Company was supplying the EEC market before so there were no new factors which affected it regarding safety or environmental conditions.

The preparation the company took to meet the extended market in the knowledge that the UK will join the community

They have always claimedto obtain business from common market companies and it makes no difference that they are in the Common Market, they have'nt read anything yet that has made any difference - apart from the tariffs - that they are in the Common Market or not therehave not been any change so their approach to the EEC countries has changed very little. The only difference is now that they have a slight decrease in price. The price is not very important, and the longer the floating £ remains means a decrease in the price of about 20%. The devaluation started in 1971 since the UK joined the common market the devaluation has been about the same as the removal of tariffs.

New investments or new joint ventures in the EEC market

They have their own companies in the EEC already, Italy, Germany and France. TRW have companies, sister companies, but are not connected rigidly at all; but have loose agreements for example with the company in Germany, but don't sell articles that they make in Germany, Cam U.K. don't make a certain type of tractor steering gear which the German company makes. If they really wanted to make it they could do so. It is a loose kind of trading agreement.

Cooperation between parent company and subsidiary companies

The parent company TRG work on the basis of a 5 year strategic plan. This plan is formulated by getting the managing directors together to discuss and develop jointly the strategy to be taken regarding the European Countries. By working this way it ensures that each company does not go off and do its own thing. This type of operation ensures that duplication does not arise as only new development needs to be cleared first. In dealing with the manufacturers this policy ensures that products could be supplied by one of the Cam factories to say Germany without any conflict as the German company could also quote. So competition between factories on pricing policy is allowed within the TRG organisation.

When the company was asked if they are persuing that policy which is against the theoretical pricing policy approach to one corporation, because if all the affiliated companies lose the contract, the corporation as a whole will be the loser at the end of the day. Their explanation regarding that point was not convincing enough.

How far the situation in the car industry has affected the Company's performance

Cam Gears have felt the impact of the decline in the economic state of the economy. This decline is very much mirrored by what happens to the car industry. The car industry is running at 60-70% of capacity. The same is true of Cam Gears. In fact the company believes that the future looks bleak for the next few years. This view is in line with the automobile industry. The reason being that not only has the income in oil had an adverse effect because it has increased motoring costs. But also the disposable income has been heavily sqeezed and continued to be so. Consequently with less money around for the consumer to afford in buying a new car. In Europe the situation is better than the UK in particular the German Market.
The economic situation is the real factor which governs the UK situation for Cam Gears.

The company's view on Britain's entry into the EEC regarding its case

The company thinks that the joining the EEC is going to have a far greater effect on consumer goods than it is on industrialised goods, unless they are peculiar industries which are part of the national heritage. i.e. if they were making something that had a very big industry in Italy or in France they would probably have far stiffer competition and if they came across a country where there was a protected industry, then there would be a lot more trouble, but the steering gear industry in the various countries of the EEC isn't very heavily protected, so they can enter fairly

easily. The company sees two very important factors here "(a) you have the price coming down which would be in their favour, and then (b) you have the nationalistic feeling - where people in this country don't mind buying foreign goods, but I think that in Europe they tend to buy their own goods rather than the imported goods."

CASE STUDY No. 17

COMPANY: The GALA Cosmetic Group

LOCATION: Surbiton, Surrey

CONTACTS: H. PEREIS, Export Manager - Europe

T. HENZEL, Export Manager - Overseas

B. KELLY, Marketing Services Manager

THE GALA COSMETIC GROUP

BACKGROUND

(a) Activity

A collection of cosmetic brands conceived and marketed by one organisation, to appeal to different sections of the total cosmetic market. It is the Group's policy, because it is fashion-orientated, to pick up fashion trends quickly and innovate in colours and techniques. Quality of product and packaging is of the highest standard consistent with the price at which they can be produced in terms of the sector of the market to be reached.

The cosmetic market in the UK amounts to approximately £90 million pounds per annum and sales of toiletries total about £100 million. Consumer age varies from 13 to 65 and prices from a few pence to several pounds per product.

The Gala policy is based on the view that no one brand can equally appeal to all sectors of this market, either by image or price, particularly if a brand's objectives are to be clear.

This is not to say that other cosmetic companies do not do this - and successfully; but it is not the Gala Group's policy to be all things to all women with one brand.

Hence it has developed brands, for example, for the sophisticated user who makes up her own mind about make-up ideas and is not concerned with price; for the young user with little money who is very trendy and follows make-up techniques of the moment; for the girl with more money to spend who is even more trendy; for the woman who buys on a 'value for money' basis the cosmetics that suit her purse.

The Gala Group has now acquired through a merger with Smith & Nephew Associated Companies Ltd. the Nivea range of toiletries. The advantages of adding this widely-based, dominant brand of toiletries to the wide spread of strongly entrenched cosmetics will be obvious.

Overseas, the Group exports all of its brands through the same policy of catering to different sectors of the market. In addition, the Group manufacturers in Italy two local cosmetic brands which are exported to other markets.

(b) Gala International

Out of 80 overseas markets to which the Gala Group exports, in no fewer than 41 are to be found two or more brands - in many, all four.

Some markets manufacture locally; some assemble and package only; most buy finished products from the UK.

Gala is proud of the fact that 30% of turnover goes world wide, qualifying for the Queen's Award in 1968 and 1973 on the grounds of export achievement.

(c) Subsidiaries -

I) U.K. Based

Gala Cosmetics International Ltd.: The export division of the Group, handling all brands overseas - whether finished products or local manufacture on a royalty basis.

Myram Picker Ltd.: The United Kingdom distribution company, handling selling and despatch on the home market through separate sales divisions for each brand.

Crystal Products Ltd.: The manufacturing division which produces all brands except Nivea which is made by Smith & Nephew in Hull.

Medi-Pack Ltd.: Produces disposable, moistened towelettes and swabs for medical and other purposes(such as own label marketing or contract packing.)

Drelco Ltd./Iridon Ltd.: Two companies that work together. The former is a display company, producing the Group's (and others')

merchandising material. The latter extrudes plastic sheeting which is used for this display, packaging and other purposes.

II) Overseas partly owned manufacturing companies

Policosmesi Spa: An Italian company that produces certain of their brands for Italy and for export.

Multi-Packs Espanola SL: A Spanish company in which the Group has a joint interest, producing certain brands for the Spanish market.

Gala Cosmeticos SA: Another Spanish joint venture, producing certain other of the Group's brands in that market.

D) Historical Background

I) Gala Cosmetic Group

The cosmetic industry as known today is relatively new in that it really stated becoming an industry in the late 1920's and early 30's. The present company was formed as off-spring from a U.S.A. company in 1933. The founder Mr. Picker was the main creator of the Group until selling out to Smith & Nephew in 1975. The first brand in the U.K. was O.D.G. a mass consumer economy price brand which was sold through new stores such as F.W. Woolworth which were being established in the 30's. By 1942 the need for another brand called Gala was realized to cater for a slightly higher income level. In turn the evaluation of the teenage market was realized and a brand called Miners was launched. In turn the 60's saw a young fashion designer breakthrough tradition and introduced new fashion for the young resulting in the launch of Mary Quant Cosmetics in 1965 appealing to high fashion oriented young people by having colours to match fashion look. Gala Cosmetic Group describes its self as being fashion oriented colour cosmetic house.

Exports started in 1953 initially in Europe before being

expanded worldwide.

2) Smith & Nephew Associated Companies

In 1970 Gala merged with Smith & Nephew in that 47% of the equity was held by Smith & Nephew. In 1975 the founder Mr. Picker sold out to Smith & Nephew, at which point Gala ceased to be a stock market quoted company.
Gala became one of the 100 companies within the Smith & Nephew Associated Companies. As the largest single company in Smith & Nephew it became known as the Cosmetic Division of Smith & Nephew.
Smith & Nephew Associated Companies are one of the companys listed in the Top Hundred and Fifty European Companies being in producing (textiles, plastics, pharmaceuticals, optics, sanitary products, surgical supplies, cosmetics etc.) Smith & Nephew have sales in excess of £110 million pounds with over 30 million pounds profit.

The effect of the merger on the Companys Performance

As was to be expected the key decisions are now been made by the Smith & Nephew board rather than Gala Board. Policy being initially decided by Sanco is implemented by Gala.

As far as the Overseas Division is concerned this policy means that it is duty bound to consider an own (S & N) company when deciding on new distributors or renewing contracts for existing distributors. This form of rationalization is not always the best as cosmetic selling and marketing is different from pharmaceutical. Consequently very limited nationalization overseas has taken place.

The main changes have been within the company as re-organization in manpower has taken place to increase efficiency and increased output per 'head' and in turn profitability. Smith & Nephew is known for its financial standing in Management, Shareholder terms rather than for being a Marketing orientated company as was the case with Gala Cosmetic Group.

As with any takeover Gala Cosmetic Group have had to adjust to the changes which with many organisations take time.

The results in terms of increased profitability are been achieved, if however perhaps slightly at the expense of creative ability due to ensuing that each and every development must be on the basis of paying its way, rather than previously when developments were planned after, on long rather than short term.

Areas of Marketing & Distribution

Gala operates worldwide on the basis of geographical region rather than trade or blocks of countries. This means that the world is reduced into regions being handled by a marketing manager, and a sales manager. Hence, the marketing areas in the company are, Europe; North & South; non Europe, Middle East & Far East, North America and South America.

Their business is basically of three types. Firstly distributors who buy finished goods from Gala in Surbiton and with whom Gala have no financial connection.

Secondly local manufacture countries; there are many markets, where it would be impossible to import finished goods because of foreign exchange problems, and they would locally manufacture and give Gala a royalty. The third area of business is Gala's own companies or associated companies. They have a number of fully owned companies abroad and a number which are joint ventures with local people. The distributors are treated separately from local manufacture because a different approach is needed - one is straightforward sales and marketing in the marketplace and the other is selling know-how and expertise. In all the mentioned

cases, whether it is a distributor or a local manufacture situation, they become involved in the method of distribution and advertising, selling through their distributors and not to them. There is no point in their selling a lot of stock to a distributor which he then sells to a retail shop, which then cannot sell them, because then the channels are filled and Gala cannot sell any more. As this is a fashion business, it does not pay to load people up with too much stock, as it just ends by coming back. A colour in one year can be out of favour the next.

Gala keep a close working relationship with their distributors; they promote new items and shades every eight weeks - six times a year. They have a regular dialogue going on with the distributors on these general promotions - on the price they are going to buy the new product for, how they are going to sell it, how many they are going to take, how it is going to be displayed. The price and the retail margins are agreed between Gala and the distributor. For instance, they would not like their distributors in Europe to be giving a bigger margin than the rest of the trade, or a smaller margin; they would want to follow trade practice. However, the level of marketing sophistication they attempt in Europe they do not go for in places like the Middle East where there is not such sophistication; it is more a buying and selling situation.

Pricing Policy

In Europe, for instance, on pricing they do not simply charge a price which is worked out from cost. They know what price they would like to get but they always work back from the marketplace - the price at which the distributor can retail the product; the taxes, the margin the retailer needs, the margin the distributor needs - they always work back to what makers can afford to pay relative to the competition. Gala like to think that they are proper marketing people but it causes a lot of difficulty to them administratively in that with any one product, in Europe it has a different price from that in Surbiton for every single market.

For instance, in the Middle East they work on a cost-plus basis and offer the product at a certain price for people to accept or not. But in Europe and Far East they are sophisticated in their approach. There is a lot more competition in Europe, which is one of the main reasons why the retail price must be a sensibly agreed one first; Gala would not dictate cost prices to their distributors abroad because the brand might be priced out of the market or the distributor would not buy it.

The price level varies in different countries and the different brands vary but they are in the medium to low price range on average.

European Pricing Policy

Regarding the pricing policy for each of the EEC countries this is different for each country. The pricing policy is decided for each brand with the distributor in negotiations before the brand is launched. This covers such factors as competition, pricing and channels of distribution. For each country there is a normal trade discount for the retailer; it is normal to sell at a recommended retail price - say 100, and the retailer gets, for instance, a discount of 40%.

Organisational Structure with Emphasis on the Sales Organisation

They have main board directors and divisional directors; there are six main board directors. The Gala Cosmetic Group is not just Gala Cosmetics but there are a number of companies; the manufacturing division is called Crystal Products Ltd., the distribution division is called Myram Picker. Each of the brands is a separate company - Outdoor Girl Limited, Mary Quant Limited etc. Then there are associated companies - Creative Research Limited, Medi-Pack and a whole host of other companies, directors of individual companies are not necessarily main board directors. There are only six main board directors who represent the Group at Smith & Nephew. There is a marketing director, the managing director, the company secretary, the financial director,

the production director and a director responsible for overseas activities.

Regarding the relationship between the sales function and the marketing function, under each brand there is a division between home and overseas; the marketing function, which is the provision of the product as they develop new products, and the development of the advertising, etc. is done within the concept of the brand group and for each b rand there are people responsible for developing the product.

Overseas Division Structure

But so far as the sales are concerned, this is separate for Home Export. The overseas division are supplied with the product firm from the marketing people so they can sell it abroad.

There is the export director and underneath him a number of people reporting to him - one export manager for Europe; a sales manager for the Far East / Middle East; an export manager handling mainly the Caribbean, South America, Africa and a manager responsible for the servicing of the subsidiary companies. The subsidiary companies do not need much assistance with sales as they have their own managing directors locally and do everything themselves; all they need is to be fed with information from the brands about the new products. A manager is responsible for coordinating the flow of information from the brands, and also for credit control and for marketing services, statistical information to the sales managers (information on sales, pricing, computer etc.)

Although the sales function is divided according to the geographical areas in which the export managers are supposed to deal with all brands in their areas, it works differently from one area to another, and divided in different ways. In Europe, because each market is very sophisticated and very demanding, they go into great detail in the European business. There is export manager who is responsible for all brands in Europe. The Far East sales manager handles all brands because it is not economic that the sales manager

goes that far to discuss only one or two brands rather than the others and often one agent handles all brands. Basically it is a regional split. The distance and the size of the area dictate how many times the sales manager travels to it.

Within Europe, Gala has subsidiary companies in Holland, Austria, France and joint ventures in Switzerland and Italy and so each have their own sales manager. The sales organisation is divided by geographical areas where the export manager responsible deals with all the brands.

Main Competitors and Competition in Europe

The competitors vary from brand to brand depending on the socio-economic profile of each brand.

In the case of mass consumer brands aimed at C/D income levels such as Mines and O.D.G. competition is from locally produced indigenous brands through to international economy brands like Rimmel, Maybelline.

In the case of Mary Quant a A/B income level brand aimed at the 18-35 age group competition is from International brands such as Revlon or local brands isolated to that market such as Boots No. 7 (UK) or Ellen Betrix and Margaret Astor in Germany.

The channels of distribution are the same for competitors which are governed by the image the brand is portraying.

The Growth of Cosmetic Trade

From 1972 to 1974 it was felt that the sales had dropped in Europe due to the three day week in Britain (1974) which caused a shortage of obtaining raw materials and components. They were not able to supply the demand, so sales suffered because of that. In the late 60s and early 70s Gala was well placed, (mainly in the Scandinavia market,) because they were then virtually the only major brand available, but competition has become intense in recent years.

Special Features the Company possesses that give it a special place in the market

The company considers its biggest advantage to be innovation; they claim, particularly with the Mary Quant brand, to be always first with the latest fashion colours for cosmetics. Their creative people look at all the fabrics that are going to be in fashion for the following year in terms of colour, style and so on and then they design the products. there

There is a different marketing approach for each brand. Outdoor Girl is basically value for money - it is aimed at women 20 - 30 years old who do not have a lot of money to spend on cosmetics. Apart from the value for money aspect of Outdoor Girl, there is a very wide range - over sixty products in the range, all with between 12 and 24 shades. The slogan for the brand in 1974 was "Maximum beauty, minimum cost" and that would, in Gala's view, sum it up.

With all these features, which the company possesses, the market is still very competitive as there are so many brands.

The Future and the New Plans for New Activities in the Company

It would require a substantial level investment to develop a new brand. They feel that they are very strong in colour cosmetics but very weak in skin care cosmetics. In this country the balance between the two is probably 80-20%, but on the continent it is the opposite; they go for treatment and very little colour. So in Europe and other areas of the world, Gala aim for a % of the cosmetic narrow band of 20% and they do not have the products to penetrate the 80% treatment share of the market. They therefore consider the growth area to be not in the colour area but in the skin treatment area and also in fragrance. They have brought out a new perfume called 'Havoc'; again that is a very big market which they are not in and which is not easy to get into. The colour cosmetic business is very fickle; if a woman likes the colour she will buy it irrespective of brand, but she will not buy either perfume or treatment products on impulse but on reputation and good experience. It is a more gradual process. In colour cosmetics, if the latest colours go into a shop they can perhaps all be gone in two days, but with new treatment products nobody will buy them. There is far more brand loyalty in skin care; advertising, recommendation, good experience count and to succeed in either of these two areas requires a lot of money to be invested. Gala's problem is going to be as a company, persuading the Smith & Nephew board to invest heavily to be certain of getting an adequate market share. Gala would use the brand name of the cosmetics and as a base to launch into skin care and fragrance. If they bring out a new product they do not know how it is going to be received; they brought out 'Havoc' and conducted panel tests to see if people liked the fragrance, but one cannot tell until the product comes out and the reaction to 'Havoc' has been very mixed.

They bring out promotions for times of the year; if they have production problems on the spring promotion and it does not come out until the summer, the colours are all wrong and nobody buys it. They are catering for a fickle taste all the time, but treatment is a steady taste all the time - the cold cream and night cream will still be selling in ten years' time. Gala bring out new products every six weeks and dropping other products because they have to keep the range compact.

Capacity in Use

Gala had a factory in Ireland until last year and they used to export a lot from Ireland. This was due to the fact that if you establish a factory in Ireland you pay no tax for seven years on profits made; they were rexporting from Ireland and from Surbiton. At that time neither was totally utilized. As part of the consequences of Smith & Nephew coming in, they have rationalised the business and have closed the factory in Eire and all the production is now in Surbiton, where they are having problems. They have no surplus capacity now, although both factories and their production is now stretched. If they wanted to increase their production by very much more they would have to consider an extension to one of the present factories, if production was to be increased although products now they are using outside contract packers; they provide the specification, packaging, etc. and the contractors do the work.

The preparation the company usually undertakes to approach a new overseas market.

The impetus as far as overseas activities are concerned comes from the overseas division; the marketing department develops the product, display, packaging etc. which is then handed to the Overseas Division. The marketing department does not get involved in the day to day activity overseas; it is the Overseas Division that

controls the budgets and decides how to approach new markets. At present they do not have any new markets in Europe(but are trying to deal with Eastern Europe) as they are in every European market. They have a fairly painstaking approach to stabilize new markets, and for example:- before appointing a distribution manager in Saudi Arabia the executive concerned saw about twenty people who had written to them previously before they went to Saudi Arabia, they normally do some basic research on the market, then visit it and see all the people who have expressed interest plus the British Trade Commissioner locally to get his recommendations and generally adopt a fairly painstaking approach before they appoint anybody.

The Effect of the Elimination of Tariffs on the Company's Trade with the EEC Countries

The company attributes the advantages they get out of the elimination of tariffs to the Kennedy Round rather than to the EEC. This brought down the duties considerably and then there was the phasing out of duties over five years through the Common Market, but the results are very small and very gradual - from 6.7% in 1975 to 5.5% this year. In terms of the company's business that is a 1% saving but they have been suffering 26% rate of inflation and having put up their prices at a rate of 20% a year, the tariff advantage is negligible over and above what they already had from the Kennedy Round.

In their business in Europe, tariffs are not important; it is the local taxes that do all the damage. In Sweden there is a 38% luxury tax, and an alcohol tax, and these are all in double figures - 28%, 30%. You are subjected to these whether you are producing locally or importing; it is an excise tax and compulsory. The actual tariff barriers for their products in Europe are not high, Gala would not say there had been any great benefits as a result of going into the EEC.

The Advantages sof Britain's entry into the EEC in the Case of the Company

The company does not see any practical advantage, as distinct from political aspects, resulting in the cosmetics field from EEC entry.

The Disadvantages the Company experienced due to Britain's entry into the EEC

If anything, entry has brought them troubles in, for instance, the form of Common Market legislation. Certain colours are banned which could be sold in England and are now illegal on the Continent. The Common Market says that all the ingredients of cosmetics must be put on the bottles; in theory they are supposed to put all the ingredients of a lipstick on the lipstick - twelve or so ingredients - which is impractical. They have started to find this in Belgium and eventually it will extend all through the Common Market, and they find it a hindrance. It is probably good for the consumer, but for them as manufacturers from a commercial point of view in the cosmetic industry it has made no difference at all to sales. They know the idea is that each product should sell at the same price in each country, but in fact their own prices are wildly different because of the local taxes.

Other Barriers to Entry in the Case of the Company

Nationalistic approach.

The company feels that the nationalistic approach affects them no more now than it did in the past; they say that the goods they have supplied to European countries have always had a connotation of good quality, which is still apparent.

A General View of entry into the EEC in the case of the Company

On a day to day basis, if the company is dealing with Denmark, for instance, they treat them as part of Scandinavia rather than part of the EEC and it would not occur to them on a day to day basis that they were part of the EEC.

The EEC might have been beneficial for them on component purchasing, (e.g. glass bottles and plastic tubes.) They buy certain of their raw material from Germany and France as do their competitors; most glass bottles come from Belgium and most of the suppliers to the cosmetic industry are common people - most eye pencils come from Germany and most lipstick tubes from France.

In their discussions and presentations to management they never treat the EEC countries as a whole.

Summary of the Barriers to Entry

(a) Tariff barriers: which have been eliminated gradually to come down to zero rate in 1977, so it is not a barrier any more.

(b) Individual EEC countries different VAT/Luxury rate systems- the company considers that this is a significant barrier in, their case, but these are domestic factors and Britain has no control over the rate sof VAT in these countries or the rate of luxury tax, but it is the additional tax to VAT - the luxury tax - that probably affects cosmetics more than some other products.

The company added that the ideal of a common pricing policy is an impossible one at the moment, like having a common currency where they have now seen in recent times that all the currencies are all pulling their own way.

The Penetration of the EEC Companies into the UK Market

The company considers in general that the effect on the cosmetic business has been neutral although it has encouraged the Europeans to think more of Britain. It is impossible that some European cosmetic/toiletry manufacturers are now seriously coming to England; before they had thought of England as a foreign country whereas now they would think of it as a market which has not been exploited. Another factor is that the UK market now has 55.5m consumers, which attracts the EEC companies, and they think English companies are going to have a tougher time in their own home market, but in fairness, although people do run down British export effort the company considers that most British companies have been far better represented in EEC countries before entry than EEC companies have been represented in England. There are no German cosmetic/toiletry products here at all and only one French company on a very small scale, but they are coming here. The continentals have woken up to the fact that there is a new market in which they can expand, but it has not given the company any extra impetus because they had supplied the European market before entry.

The company considers that England as a country is less controlled by legislation than other countries and consumerism is not nearly as strong here as it is in Europe, and particularly in Scandinavia where it is very strong. Now, however, with one law in theory for everybody it is going to be hard to follow, for instance with the requirement to put all the ingredients on a lipstick. Supposing this is done, does it have any meaning for the average person.

How far the Devaluation of the Pound helped the Company Trade with the EEC

Devaluation of the pound has definitely been helpful to the company; and has been an advantage in the sense that it has made British

products cheaper because the pound has been devalued in terms of the local currency, but all it has helped to do is to cushion the effects of the varying kind of price increases the company has had to impose. They have been going out with price increases in the region of 20-25% a year, whereas in Germany there has been inflation of 6%, a difference of 14%. Fortunately the German mark is very strong leading to a low rate of inflation in Germany. So at least the difference in terms of local currency, in that time, has been a 10% or more devaluation of sterling in terms of the local currency. In fact in real terms, although the company has put up its prices to its distributor they have not had to put them up very much in the local market and British goods are just as competitive as they were; but without the floatation of the pound if they had tried to maintain exchange rates as in the old system, it would have been extremely difficult and expensive locally. It really has been an advantage.

Another view of the Advantages the Company expects to experience due to the elimination of Tariffs

The company considers that the elimination of tariffs will not make a significant difference in today's inflation - for example, the previous day the bank rate in Italy went up by 4% whereas in the old days it would have moved by $\frac{1}{4}$% or $\frac{1}{2}$%. In other countries such as Iran, the import duty is 100%; in Cyprus 100%; cosmetics are regarded as luxury goods and they can be taxed very easily without affecting the basic economy very much, so they are singled out. In terms of the rate of inflation and the type of product, 3-4% is extremely small. If it were a reduction from 100% to 80% or 50% this would be something tangible, but the company has just put up its prices by $7\frac{1}{2}$%, which is more than the import duty. They would do either more damage or gain more benefit by imposing or not

imposing a six monthly price increase than abolishing or maintaining the total import tariff.

Prospects the Company expects in the EEC markets

The prospects could be very good. When Britain went into the Common Market, it was thought that there would be increased activity between the countries, with an increase in trade and general prosperity of the people, that the whole thing was going to work and there would be more demand. That was the theory. In practice the company thinks that it will be a tough struggle just to stay where they are. Although in theory the extent of the market in the UK to include the markets of the other eight countries with a purchasing power of 250 million people should increase the demand on the company's products if it works towards satisfying their requirements, the company did not see any advantage in Britain's entry into the EEC regarding that theory because they have traded there before and what they might face is only how to keep their position in these countries. The only advantage which the company could speculate on as a prospect for thefuturein the EEC market is that the purchasing power and the prosperity of the people would increase, and with it the demand pick up.

What would be the position of the company in the EEC market had the UK not joined the community

"Had the UK stayed out of the community, then instead of the tariff barrier abolished - and it must be remembered that this is a bilateral thing and as the tariff barriers between the partners are being reduced, so the barriers between the Market and outsiders are being increased - then at the end of ten years, the difference could be substantial. Although they have only come down from,

say, 6% to nothing, if they had gone from 6% to 12%, which they might do with other countries, this would be the figure to be looked at. Had Britain decided to stay outside, the company could then see itself facing maybe a 10%, 20% or 30% tariff barrier, so being inside the EEC is very hopeful although the advantage to them of staying inside the reduction of tariffs has been very little at the moment. Although there is a common policy within the market which is to reduce all tariff barriers between the members, it is at the same time a reverse policy towards outsiders. One of the biggest political objections the anti-marketeers had to the Common Market idea was that it was an inward-looking thing; as in the case of Commonwealth butter, if countries are not inside, they are outside facing quotas instead of tariffs. That is an indirect benefit in the sense that not being victimised or discriminated against by higher tariff barriers is in fact an advantage in the long term, although in the short term or medium term it is not an advantage as it does not bring any great benefits."

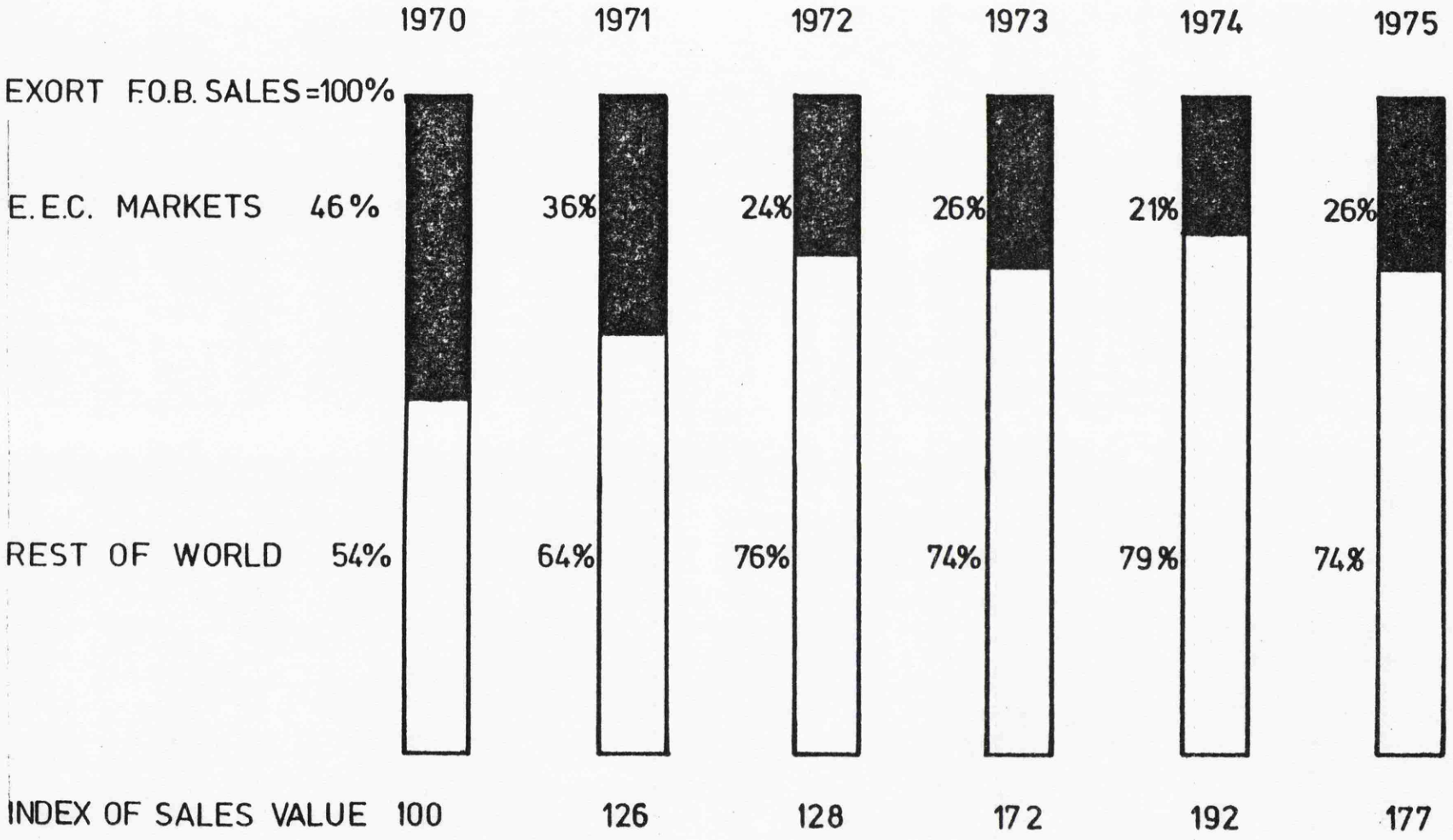
Economies of Scale

They are producing short runs all the time. They have so many colours, products and shades that they cannot work on a flow production system where the machines are producing great quantities of one product. They use batch production methods and may have to change a production line three times in a day for different colours, which means a lot of time spent in cleaning a production line down and changing over. (Example: when mixing colours in a vat, if they want to change from red to white the cleaning process has to be very meticulous so that no trace

of the red is left which will turn the white into pink. It is a very uneconomic business. The actual raw material is very inexpensive, but it is the cost of manufacture, the labour costs, which mount up. Were they able to do long runs of one product they would make a considerable saving, but the longest run they would do would be for nail polish remover for three or four days. Regarding the economies of bulk buying, the company experience that sort of economy of scale because they use a number of standard raw materials which are common to a lot of products, sometimes it is only the colour that changes, and the same thing with components; a lot of packaging is standard. So they could launch a series of ten new colours across three products and be using the same components, apart from perhaps a different label, and the only change to the raw material would be a colour ingredient, and the bulk of their raw material would be bought on their normal purchasing procedure when they buy in bulk. The economies of scale in the cosmetic side of the company's business are not easily obtained, for the reasons they have explained before.

On the toiletry side it is easier to obtain, because in the former the change in colours and shades all the time does not allow for economies of scale, regarding the latter it is usually produced in bulk and does not change frequently (e.g. Nivea creme). Economies of scale related to the use of specialised and sophisticated equipment do not apply in the company's case because it is a labour-intensive production process, using in the main short run production lines the lipsticks and most of the company's products are produced and assembled manually. The company obtained a sort of economy of scale which could be applied only in its case (and similar production lines) when it changed the lipstick containers from metal to plastic material because the first was more expensive. (The company was forced to that change because the metal material was not available).

Sales Ratio (EEC) & (ROW) in the years 1970-1975



CASE STUDY No. 18

COMPANY: Pasolds Ltd.

LOCATION: LANGLEY, BERKS

CONTACT: R. KINGLAKE, Sales Director

PASOLDS LTD.

BACKGROUND:-

The Pasolds business, which has b ecome Europe's largest children's wear manufacturers, was founded in 1680 in Czechoslovakia. It expanded over the years and by 1927 was exporting 80% of its production to Britain. In 1932, a site was purchased at Langley, England, and the first section of the factory, which stands on that site today was built. Pasolds, who are now part of the world-wide "Coats Patons Group," employ 4000 people, and have 13 factories in Britain with further factories in Canada, and Portugal. They are in ternationally famous for their "Ladybird children's wear," and Miss Lady Bird ladies swimwear. Pasolds also manufacture the well-known "Chilprufe" and "Babychic" ranges of children's clothes. "Chilprufe" also make men's and ladies underwear. Chilprufe's mens and ladies underwear and ladies swimwear is at the top end of the market. Principally 100% wool.

They believe that they are the largest childrenswear manufacturers in Europe, as they are certainly the largest in Britain.

They have always been keen on exports. They have exported ever since they began. The time they were founded "weaving was done in the front room of a house", and gradually, after generations, it developed. By the late twenties, they were employing approximately 1000 people in Czechoslovakia, 80% of their business was being done overseas, principally in Britain.

Pasolds, the eldest brother of the firm came to Britain in the late twenties, to open a selling officeto help with the import of merchandise. Britain came off the gold standard in 1929. There were import controls, and it looked as if Pasolds were going to lose their markets, so they decided to manufacture here.

Accordingly they started building a factory in 1932 in Britain.

Pasolds lost their Czechslovakian factory in 1947 to the communists and now have no interests in Czechoslovakia. The British factory is the Head Office, the main factory. There are factories in

Portugal, Canada, Belfast, Glasgow, Kirkbridge, Stranraer, Leicester, Plymouth and Crediton.
Chiefly, they trade as a group, except 'Chilprufe', bought in 1962 in Leicester. 'Babychic' which was part of 'John Hescots', a fabric producer. 'Chilprufe Ltd.' is now in Crediton. Pasolds are part of 'Coat Patent', the world's largest thread manufacturers, and producers of wools; 'Jaeger' of Britain belon gs to the same group. Pasolds controls 'Byfords', 'Dalbeich', 'Westbrydon', 'Woollen Worstead', and a great number of clothing firms. Pasolds are a vertical organisation, formed from the merger of various companies. They buy, knit, dye, cut, sew, and sell the fabrics they use.

Operations in Europe:-
They have had a selling company with a small warehouse in Germany since 1959-1960, they anticipated that Britain would eventually enter into the EEC. That is their only warehouse on the continent. Agents are employed in different parts of Germany, also in Holland, and Luxembourg. The warehouse is a selling distribution headquarters for Germany, Holland and Luxembourg.
In France, they sell directly. We quote, "France is a very difficult country to sell in, being very chauvinistic". Pasolds sell there what is called "redudent merchandise," past year's stock, that is cleared at special prices. They also have French buyers who buy directly from the UK plant. "It is a method of marketing and distrubution, they would not use it any where else in the Continent".
They have selling offices in Belgium, in Belgium there is a direct selling operation, with a representative agent, in Denmark, that is confin ed only to a particular brand.
The italian market is difficult to penetrate as there are different tastes. There is an agent in Italy, helped by visits from London. Some of the company's high quality products do find a market in Italy; i.e. their traditional style range of Coats.
In Europe, they also have markets in Spain. However, the company believes, We quote: "there is nothing common about the 'Common

Market'. Worst thing any manufacturer thinking to sell in the EEC is to regard it as an extension of their home market. The taste in clothing is different. This can even be provincial, the taste of a German in Hambourg, is different from the taste of a German in Munich. The UK's taste, however, tends to be general".

ADVANTAGES IN JOINING THE EEC. IN THE CASE OF THE COMPANY:-

Pasolds believes that, advantages come from the fact that it is a larger market. Germany, with a population about 10% bigger than the UK spend considerably more on children's wear. Therefore, there is not only a larger market, but a market where, per a head of population, they do spend more money on children's wear. Secondly, advantages are obtained because Europeans will not adapt to the British taste where as the British will adapt to the continental taste. That would result in the company would be able to produce what is suitable for both markets.

Effects of Elimination of tariffs

It affected the competitive position of the company favourably, although they could not quantify the effect.

Sales increase in 1973-1974

The company had anticipated in the preliminary survey that the increase due to the tariff reduction would be 25%, their expectation materialised but not only as a result to tariff reduction, but also because of the new designs they introduced.

Marketing and Sales Organisations

Prior to 1971, the company was concentrating in the traditional British markets e.g. Australia, Hong Kong and Malaysia. In 1971, they divided the world into 2 parts; one was Europe with a European export sales director, the European managers report directly to him. (In Southern Ireland they left the old export manager to continue his task as before). The European export director was

chosen on the basis of mastering different languages, he has an assistant who will travel. The principal market for the European manager are the Scandinavian countries, "the best being Norway". The company also do a fair amount of trading with East Berlin.

Pricing Policy

The company has a basic price list, but if they are trying to get into market, they are ready to be flexible with their prices. They do this by calculating the wholesale prices and try to establish a basic price structure. If they realise that a product they wish to sell will be over-priced then they cut margins. If they, then, find this product has already been greatly reduced, they would take it out of the company's range. But so far as Europe is concerned, the European export manager goes overseas to see certain customers, with a guide line of what discounts he can give to enable them to sell with a minimum ceiling. They adapt a flexible approach to the pricing because they have to find the right price for the quality. It is all part of the "market mix". If an agent is employed, the company tend to be unflexible in setting prices. They depend on discounts given, as a means of price differenciation in different markets.

Obstacles to trade

We quote:

"Some of the obstacles are of the company's own making, they need a change in the attitude of the people who work for the company."

Although the company plans its production and delivery ahead, it still cannot cope with the requirements of France and Germany that demand earlier dates for their ranges to be ready. Therefore, they have a problem of finalising their range in time, a different range every six months, getting samples produced, having costing and prices decided earlier are an important obstacle for the company to overcome.

Together with the large production cycle and long planning cycle,

implementation is a difficult process.

So obstacles firstly appear in sampling and time table. Secondly style and the price as Pasolds stated "With flexibility the company is showing now over prices, they believe they can overcome any problems". "One obstacle is probably a reputation, of Britain's poor delivery and bad service within the clothes industry".

National Feelings as an obstacle:-

"France is very nationalistic. But, probably others are very pro-British, such as Denmark. As long as the price and product were right, they would buy from Britain instead of another country."

LEGISLATIONS AS AN OBSTACLE:-

One piece of legislation, has helped, which is not yet in force in all the EEC countries, is textile labelling, where the composition of the garmet is to be labelled on the garment. In Britain, for years, there has been a composition labelling. The company has changed their labels and put the composition in five languages, British, French, Italian, German and Danish. Still, legislation, in the company's experience could be a hinderence to trade, "but fortunately it was experienced in Britain and not in the EEC countries". Example, the legislation, in Britain regarding childrens nightdress material that must be inflamable.

MAIN COMPETITORS IN EUROPE:-

Their main competitors in Europe and the UK is "Absorba", which is a very large French company whose merchandise tends to be expensive in Britain. "Young Dane", a Danish knitwear company, and "FIN WEAR", which is a FINISH company are the main competitors outside the Common Market.

PENETRATION THE COMPANY EXPERIENCED IN THE HOME MARKET FROM FIRMS IN THE REST OF THE EEC.

The French, competitors did manage to penetrate, to a certain extent. When the French Fr. was strong and the British £ was weak, that was a disadvantage to the competitors. It should be easier for Pasolds to sell to the continent than for the Continental

competition to come to Britain because of the price differenciations due to the relative exchange rates, but the main obstacle is meeting the European's time tables.

THE COMPANY'S PERFORMANCE AFTER BRITAIN'S ACCESS TO THE EEC:-

They gained market into Europe, which they probably would not have done without entry. Over the last 2 years they are introducing a special style to Europe, which they would not have done otherwise. However, the company does not necessarily believe that the progress they made in Europe over 1974, 1975 has had to do with entry. Nevertheless elimination of tariffs does have an affect on prices, but it is not the only factor they can attribute increased sales to. They have decided to take Europe more seriously, to become much more European minded. Furthermore, the devaluation of the £ made prices more cheaper, hence Europeans are looking for Britain as a supplier because we quote: "If the garments are right, and particularly if prices are good, they will come whether the company is inside or outside the common market."

Gradual tariff eliminations and its effect on sales

It came down to 3% in most cases, that is from 18% or 20%. The company believes that it is just one factor, and not the major one. It would have been a more important factor if the pound had not been devalued, as that would be the only way to get an advantage. The pound being weaker over-shadowed the fact that the duties have come down.

THE NEED TO ADAPT STANDARDS, STYLE OR SPECIAL SPECIFICATIONS THAT THE MARKET REQUIRES

That doesn't apply to the company. There have been no rules put down by the EEC commission which would oblige Pasolds to put standards or specifications, they only change styles according to consumer's preferences.

THE NEED TO BUILD UP MARKETING AND SERVICES FACILITIES DUE TO ENTRY:-

One thing the company has done is advertising in Europe but not to the consumer. At Koln fair, they have been exhibiting there for 27 times, as the German subsidiary was formed with the idea of Britain's entry into the EEC. They are more likely to book other European fairs than prior to the entry into the EEC, as ..... "The opportunities for the future are inevitably very much closely tied with Europe."

PREPARATIONS THE COMPANY UNDERTOOK IN ANTICIPATION OF BRITAIN'S ENTRY INTO THE EEC

They undertook market research, increased visits. One important thing they implimented whilst choosing a range, was a selection panel, which included designers, selling people, and some retailers. Until three years ago that panel consisted entirely of UK people. Now, they have a representative from Germany on this "range choosing panel".

JOINT VENTURES WITH EUROPEAN COMPANIES:

They have none in the EEC countries, although they have two, one in Japan and the other in South Africa. The company doubt very much whether, over the next few years, they are likely to invest in manufacturing, or in buying an existing company, in Europe. If they were, they would be more likely to buy a French company than a German.

THE INJECTION OF NEW CAPITAL:-

Because of the strain on capacity, the company found itself obliged to inject new capital to meet the increased demand, but that was not due to entry. They injected the needed capital for a planned expansion of the company as a whole.

They don't need to inject a new capital into the business to meet an expected increase of demand from the EEC. They can meet this demand from the lost markets in the traditional common

wealth countries, Africa for instance. The company has spare capacity for any new demand, and "that is not only the case with them, but with the whole textile industry".

BENEFITS THE COMPANY OBTAINED OUT OF THE SPECIAL AGREEMENTS WITH THE EEC ASSOCIATE COUNTRIES:-

With countries like Greece, it didn't help, because of shortage in demand there. In countries like West Africa, the ex-French African countries, the French are very well established there already.

In dealing with these associate countries, the most effective elements that helped the company were the cotas' agreement and the tariffs agreed upon.

TRADE MARK RIGHTS AND THE COMMUNITY:-

The flow of goods from one country in the EEC to another is allowed irrespective of the protection of the "Trademark" rights. The trade marks are under attacks from several directions. The right of the owner of a trade mark to protect himself against infringement of his trade mark has been increasingly circumscribed. No where is this process more obvious than in the EEC. where the European Court of Justice insists that Trade Mark rights shall give way to the principal of the free flow of goods within the community. This goes back to a case which was decided in Belgium of "Cafe Hag". "Before the war German "Cafe Hag" established a subsidiary in Belgium, and that subsidiary used that trade mark "Cafe Hag". After the war, the Germans lost that subsidiary in Belgium, and the German company tried to prevent "Cafe Hag" selling their products in Germany. But they lost their case. There is confusion as to how much this case benefits anyone, certainly not Pasolds, who have their trade mark registered in all the EEC countries. One country where they do

not have it registered is Spain. There could be situations whereby, if Spain became a member of the EEC, the Courts could argue that you must not stop the free flow of goods from Spain to Germany, or Britain, or France, because the trade mark might be the same as Pasolds".

SPECIAL FEATURES THAT MAKES THE COMPANY SUPERIOR:-

PATENT:-

They have a certain knitting structure in certain fabrics which has a patent.

TRADE MARKS (BRAND NAME):-

The company has its trade mark, which is registered in about 85 countries, and they protect it vigorously.

The Brand name has helped the company, people in Europe becoming aware of it. It is not as well known in Europe as it is in Britain, but most buyers and people in children's wear trade on the continent have more than heard of their name. (Pasolds & Ladybird). One disadvantage is that the range is so large, which no other company is producing. This creates a problem for the sales representatives offering goods to customers.

The impact of the state of the clothing and textile industry on their sales:-

We quote:

"It has been affected by the economic situation. The textile industry world wide is a very cynicle industry, at the moment, it is a slump, and that is true of most textile producers, not just in Britain, but in Europe and world wide, and the company is part of that."

Britain's economic performance and the Company:

We quote:

"The textile industry has been hit very hard. It is also hit very

hard in the UK by imports. But by having imports banned, exports of about 2 million pounds worth of children's wear from the UK last year may be affected and it represent about 15% of the company's sales. They have been helped by producing in their factory in Portugal for meeting demands put to the UK"

Economies of Scale

Longer production runs:

We quote:

"The company is a mass producer and therefore wants a mass market. There are tremendous economies of scale available in the textile industry. They print fabric, and have a printing machine, which could take 2-4 hours to set up for printing, and 3-4 hours to dismantle. So, there is no use putting through a small run".

(2) THE ABILITY TO USE LARGER PLANT AT A LOWER COST:-

"That comes down to the same thing, they want large volumes. Children's wear has become far more fashionable, therefore has to be changed more frequently. In the late fifties and early sixties, the same garment would do for years, so a massive volume could be produced."

(3) ABILITY TO USE MORE SPECIALISED AND SOPHISTICATED EQUIPMENTS:-

The company believes that with a large market, with greater potentials they can afford to use specialised and sophisticated equipments.

EFFICIENCY:-

(a) We quote:

"With longer runs and greater production they should be more efficient than they are at the moment. It depends on the volume, and they are not so efficient as they used to be, because the runs per style are smaller than they were 10 or 12 years ago."

(b) Output per man:-

We quote:

"The longer production run affects the productivity ratio. The printing is a typical example, where they need for its process three hours to set up the machine, three hours to dismantle, and twenty minutes for doing a print run. The company would rather have three hours to set up, five hours to do the print run, and three hours to dismantle. So, the productivity is affected by the length of the run."

How the Company is meeting the competition:-

We quote:

"They are trying to improve products to meet the competition. The merchandise is getting a more European look to it stemming from the competition from the EEC in the UK. Therefore, is Pasolds' merchandise can match their's in appearance, they should be able to get a better price, because the competitors also have the currency situation against them. Pasolds also have a small market in the UK, which buys imported merchandise. People would pay a lot for a garment, just because it is made by "Piere Cardin", for instance."

In the preliminary survey regarding this point they stated that they are able to sell the same kind of product in the extended market. When assessed, we quote: "But as is indicated above, it is not an absolute "yes". It is "Yes, but". We have to match the quality, the prices and the fashion of Europe."

R & D:-

They depend on the R & D a great deal in developing new styles, new fabrics and new methods of printing. They always modify their products, having a new range every six months.

PROFITABILITY:-

It is not satisfactory at the moment.

Marketing Other products:-

None.

Potential Activities:-

We quote:

"We are looking for increased sales volume. There are no plans for any diversifications at the moment, although we are the largest British manufacturer, the company has a relatively small share of the market. This is because the clothing industry is made out of thousands of people each producing. In certain areas we have the biggest share of the market. If we were in a position where we had 80% of the UK market, then we would have to start thinking diversification. First we have to penetrate and capture the new market, and then we can diversify. Divercification is now impracticable unless it is for similar products; example: extending the range of the swimwear from the age of 13 to the adults."

POTENTIAL COMPETITORS FROM THE EEC:-

We quote:

"A French competitor, which is now large and we expect him to remain so. In Germany, there are certain large companies, we imagine would become potential competitors. There is a company called "Shesa" who are similar to Pasolds, a very wide range, a vertical organisation and very large. Certainly they have not tried marketing in the UK yet."

PREPARATION TO FACE THE COMPETITION FROM THE EEC MARKET:-

We quote:

"Britain is more likely to adapt continental taste rather than the other way round. And therefore, by Pasolds being involved in the continent their range is likely to be better in the UK., enabling them to protect themselves against the continental competitors". The learning process that the company is gaining from Europe, is a factor they depend on for defending themselves from com-

petition from the EEC.

BRITISH COMPETITORS IN THE UK AND IN THE EEC:-

In Britain, they have no other company in their range producing any good like theirs. "True Tex" are very large in school shirts, and shorts. There are other people like "Paula LEE", "David Rome" who are specialists in dresses. "Baby Grow" are very large in stretch babywear. Competitors are in parts of a different product group. There is not a great deal of competition from British companies in the EEC market. They are trying to exploit the opportunities, but they are not compared with Pasolds in terms of capacity, style, and prices.

CASE STUDY No. 19

COMPANY: Tootal "Fabrics Division"

LOCATION: Manchester

CONTACT: G. Mitchell, Divisional Director

E. D. Hughes, Export Manager - Europe

TOOTAL FABRIC DIVISION

COMPANY BACKGROUND

Tootal Group is a comparatively new group with its Headquarters in Oxford Street London.

Tootal Group is the result of takeovers, mergers, consortiums going back over 200 years.

As yet the history of the company has not been written but we do know something of its background. In this instance the Fabric Division.

For example one of the constituent parts in the Division took place when English Sewing merged in 1968 with English Canico. Here again if you look at the English Canico history you see it in turn was formed between 1899/1901 when 100 companies formed the consortium to be known as English Canico. The history of each of those companies shows that Tootal can go back over 200 years. Other constituent parts making up the Fabric Division were Foyles Prints who go back to 1750, others such as Gartside Spinning & Weaving Company go back before 1820.

Today following the historical development of Tootal-Fabric Division the individual companies have been forgotten as the main factor is the establishment of the Corporate Identity namely "Tootal". So it is impossible to say Tootal was established on such a date as Tootal has emerged over a period of time by the result of companies joining forces.

Within this major U.K. group are various divisions all of which are profit centres. For example the Fabric Division as a profit centre operates a further five sub-divisions as profit units. In turn reporting into the Division who in turn report into the group.

Main Activities of the Fabric Division

"The Fabric division prints various types of greycloth which in turn is sold as merchant converters. We ourselves also buy in as merchant converts certain specified cuts for use in making children and ladies dresses.

We also provide for industrial garments which is not just for Garage Attendants, but uniforms such as those used by Airlines such as Aer Lingus or Lufthansa or school uniforms, This apparel we call industrial or career apparel rather than fashion apparel.

We produce also technical or industrial cloths which can be used for example by the Aircraft & Watch Industry for cleaning lense in spectacles through to large telescopes. Other technical uses of our fabrics are for example in the carpet industry where the customer requires his name to be printed on the underside of carpets. We also bring certain transfer or printing techniques require to give the effect of Jacquard weaving these are powered by the Fabric Division in two factorys. So you can see that the Fabric Division operates various methods.

The Fabric Division operates a Merchant Converting House in the Netherlands which buys all over the world but sells principally to the Common Market. This can be buying woollens and having them dyed to denim slacks and even fashion printing for hankerchiefs.

Another concern is the manufacturer of artificial furs which we make in Folkestone, England where the products are marketed by our own sales organisations and through Agents.

Our Sales Organisation operate under the Tootal name in USA, France, Belgium, Australia and New Zealand, Germany for example."

Of the Fabric Divisions activity printing represents about 35% of the Divisions Activities.

Diversification

"The Tootal Group is involved in every stage from growing own cotton, through to making our own thread, spinning and weaving onto dye and printing of fabric." At one time the group through the CPA invented polyesters and terylene. The group has its own Garmet Making Centres through to its own retail outlets.

Competitors

"We the Fabric Division are very small when compared to Courtaulds who are our main competitor. In fact Courtaulds have the biggest single machinery capacity in the U.K. However in certain areas we are the main suppliers such as in the printing field. In turn we sell our printed cloth by our Merchant Converters to the EEC.

We even have competitors who provided their own cloth and we do the printing for them and then in turn we compete on the open market.

We however can not compete on price as far as fabric printing is concerned when the material is printed in Far East markets. However we can compete in that our technical expertise is better and our quality makes price ourselves in the middle price sector. Our Fabric Division produces over 500 designs on different clothes which in turn can have 4 or 5 different colours, this means we have to be competitive in being fashionable otherwise if we fall behind on colour and print trends we cannot compete with our competitors."

Main Competitors in the EEC

"If we take Germany, Holland, Austria, France. We have for example 5 competitors in Germany; 2 in Holland; 1 in Austria; 3 in France. We don't have any competitors in Italy, Switzerland, Eire, Denmark. We believe we compete because Tootal Fabrics are second to none when it comes to technical know-how and this gives us the edge in the quality mid market. Competition in the form of fabrics coming into the EEC via East Germany into West Germany means that the products are from the East Bloc countries."

Research & Development

Tootal R & D works on new designs and examining different cloth constructions. This is carried out by travelling world wide and examining other supplies materials. The industry in this business is helpful and competitors;talk to each other on products and new development so that nobody is really ahead. In the design field it is very much one of swapping information on trends ."But the results are based on the knowledge obtained,and the best way we believe the information should be used in helping us to present new designs as the business is based on selling design and colour."

Pricing Policy

The company's pricing policy is not a single policy but one based on a combination of factors which vary from country to country. These factors are: competitors prices; time of year; cost plus element which is based on quantity; type of market. These combination factors result in the pricing policy applicable to any one product for any one market.

No. of Employees

In the region of 1,000 - 1,200

Did the company trade before 1st January, 1973 with one of the EEC countries

The company traded with all of them before 1st January 1973.

What the company did expect the effect on the trade after Britains entry into the EEC

The effect has been very largely what they expected. Generally highly favourable and their expectations have been materialised.

Did the company's products carry full tariff duty before Britains entry into the EEC

Yes, it did.

The Expectations of the tariff reductions on the increase of their sales volume

It was over 25% and it has been materialised but it is not the only factor to which the increase, could be attributed.

If Britain had not joined the community would the company have expected that the sales would be increased irrespective of Britains access to the community

No the non-entry situation wouldn't have helped the trade as in the entry situation. That is mainly because of the psychological effect, i.e. the psychology of Britain being one of the European partners.

The Advantages the company experienced due to Britain's access to the community:-

It was the psychology at the very top level that opened up an extention to trade for the company which was already well equipped. They were helped and continue to be helped by the reduction in tariffs; the effect of the devaluation of the £; and also by attitudes on the other EEC countries, that all are now part of the Common Market.

Within a short period of time from entry, the company had its own sales organisation in France and Germany that are run by nationals of those countries. Negotiations to set up these sales organisations were started before entry in the knowledge that the United Kingdom was joining the EEC. This was also true with relation to the purchase of a company in Holland. It was taken over $3\frac{1}{2}$ years ago and gave them the ability to start marketing within the, then six EEC countries.

This was not only the policy of the Fabric Division but for the whole group.

To summarise up the advantages which the company experienced from the UK entry into the EEC;

a) The increase of the sales volume, this exceeded 25%

b) The psycological effect i.e. thinking more European in internal decisions, and being accepted as an equal partner in the other countries of the EEC.

With regard to the second point, "this varies from country to country not every EEC country is as easy to deal with as the others."

The preparations the company took to meet the extended market requirements in the knowledge that the UK would have access to the community.

The company prepared itself for the UK entry into the community by reorganisationed structure. They also acquired a new venture in Holland, as has been mentioned above. Regarding preparation on the investment side the company answered, in equivocal terms, about the capital investment which they would put into operation, in order to increase capacity. They employed extra staff to deal with Europe, with the expected prospect of increasing the sales. This in the mean time coincided with the investments plans to increase capacity.

But in the question of investments, the "Tootal" indicated that it was taking place; irrespective of entry;in new machinery due to obsolescence. Planning was directed to the exploitation of the potential EEC market, to stand against penetration from other EEC companies to the home market and to compensate the ground they lost in the EFTA countries.

So, the preparation the company took to meet the extended market are:

a) Re-organisation of structure.
b) Acquiring new ventures.
c) Re-equipping the plant operations.

The Penetration of the UK Market from firms in the EEC. Countries:

For Tootal Fabric Division as a whole there was no penetration or competition from any of the EEC countries into the home market. Regarding competitors the company expects they can maintain their share of the market. Tootal is sharing in the process of selling with many companies in the EEC. This means that they can guarantee an obligation from the company with which they

share that they would not compete with them in the UK market; but, if they did, then Tootal indicated that they would partner them and not lose the whole share of the market which might be captured.

Distribution and Marketing facilities in the EEC Countries

Tootals employed trained German nationals, and visits to the market were increased. The company also calculated the freights, according to their destination, in the currency of the importers, to facilitate invoicing and the prices of the goods.

To keep in touch with customers in the EEC countries, they evolved system of following up the delivery of goods to make sure customers were satisfied and that delivery was on time.

This involved feed-back documentation from the customers, about the state of the delivery and their comments on it, and a periodic meeting of all involved within the company to reasses the situation, and to correct any deficiency which may have occured.

Regarding market research on pricing, demand, competition condition and the designs wanted the Fabric Division employed an outside firm of consultants two years ago, and they are still working on market research for the company.

On the question of the price levels, clothes, prints, designs, and colours wanted the company makes certain that a sampling enquiry is followed up by a visit from a representative. The representatives in the EEC countries are always feeding informations to the Department concerned about the condition of the market and their opinions of what actions are necessary to face any new circumstances arising to enable them to keep their share of the market.

The Company's Plans in the EEC market

We quote: "One of the biggest single problems that Western Europe has faced in the Textile field, and Tootal is no exception to this, is the problem of cheap imports from the Far East and Iron Curtain countries. It is very difficult to reach some kind of rational approach which will satisfy any of the individual members of the underdeveloped countries from whom cheap imports are coming, and it is also difficult to get sufficient weight in discussion and argument with the Americans.

The community is now working towards a whole series of arrangements and agreements on quotas, for the community as a whole, with the cheap importing countries of the Far East, etc. When this has been achieved; although there will be slight differences between individual members within the community; a better deal will have been reached than any single member could have hoped to get. It also means that as a community of two hundred million people, the EEC is in a much stronger position to make its voice heard with the Americans than a single state.

A company may not get from negotiations all it hopes, but it can get an idea of what the results may be and so plan forward"

THE EFFECT OF THE ENTRY IS THAT THE COMPANY NOW CAN GET THROUGH TO THE COMMISSION CONCERNED THAT WOULD DIRECT EVENTS FOR THE BENEFIT OF THE COMPANY.

The Company and the future with regard to its policy in the EEC. For the Years 1976/1980

They look at the future in the following way with regard to objectives in the EEC., We quote:

"Each individual country will be dealth with separately. Firstly Eire; the main goal will be to hold on to our present market. This is going to be very difficult because a great deal of our work done in Eire is not on the fasion print side, but on technical cloths for inter-linings for shirts and similar items. A great deal of trade takes place at the Northern Irish border near Belfast."

Tootal was happy to say that indications are that they are holding their market, and that they are doing better than was anticipated.

In France, they believe, that they will continue to increase sales over the next 5 years, after taking inflation into account by between 10 and 15%.

In the case of the Benelux countries, their forecast is that they would, approximately, double their volume of their trade.

They added that Germany is a very difficult country to assess, as there is resistance due to nationalistic feelings and as the Germans are highly efficient in their own industry.

As for Holland, their policy is to capitalise on the strength they have with their Tootal Holland operation, which is doing well.

Denmark, "is increasingly becoming, as far as textile is concerned, a colony of Germany" The company explained that this is largely because of historical links. It is a good market for the company but they do not want to be too over-confident about expanded prospects there.

As for the potential applicants to the Common Market, Spain and possibly Greece, if Spain did join the Common Market, the company would not start looking for a vastly increased market there. That is because they do not think that within the next 4 years up to 1980, the Spanish economy, or the Spanish body politic, is going to be sufficiently settled for them to operate there. They could not count on getting their money out of Spain

in any reasonable time, so even if Spain does join the EEC, the company would consider expansion there, when well into the 1980s, after careful consideration of the political and economic climate.

Greece is becoming the centre of the garment making industry because of its cheap labour. The company is already doing quite a sizeable amount of business in Greece in conjunction with garment markets from Holland, France, Germany, and Austria. A Greek factory will be able to make garments much cheaper than a factory elsewhere in Europe, even with the cost of transportation. If Greece enters the EEC, the company believes that trade with them, will increase rapidly.

How far the Agreement between the EEC and its associates helped the exports of the Company

It has not helped the company at all, but there has been a spin off with regard to supplies of undecorated woven goods from places like Morocco, Algeria, and Tunis, particularly to Tootal Holland. They have no residual duty, but this duty still applies to the UK until January 1st, 1977. Until this date is reached,the company has been making use of the Tootal Holland operation for this fort of activity. "There are signs that the company may well come to do business with those countries, by selling them designs to be printed there. This is really a licensing business which falls directly outside the ambit of the Fabric Division." The company has a licencing Department which covers the whole world and can licence various types of technical knowledge, including design. In Argentine, where they can't sell any fabric because of the prohibitive duty of a licence, they can sell their design know-hows. In this way they are trying to get as much as possible from the trade agreements between the EEC and the other countries in the ROW.

The Disadvantages to the company, if any, in Britain joining the EEC.

As for the obligations the company faced in relation to the legislation for standardisation - the company indicated that the one thing that they had to be prepared to do and in fact were doing long before joining, was to sell in metric measurements. That constituted no major problem for them.

In the question of the burden of additional work involved Tootal indicated that there was a burden of additional work, they took extra staff to cope with the additional burden of running sales ledgers in foreign currencies which eventually had to be translated into sterling.

So, there were no real disadvantages which the company experienced.

How far the company had been affected by the state of the textile industry in the last three years.

Long before the community was joined, the Tootal Group was part of a steadily declining industry. In 1930, The Callico Printers, part of the Tootal Group, had over 70% of the printing capacity of the whole world, and effectively a monopoly in the United Kingdom with something over 40 print works. They are down to 5 print works, none of which are nearly like as large as the Print Works they used to have. Even in the 50's the largest one was twice the size, of any existing one now. This is not only true of the UK but of every single Western European textile printing concern.

We quote "In the last two years, the United Kingdom, along with all other countries in the Western World, suffered a very considerable trade depression. Tootal was also faced with very big problems of cash flow. However, one bright factor during depression period was that exports never declined. In fact

they continued to rise. The two principle areas where this occurred was the Common Market, particularly France and the Middle East. In 1974/75 the total export business was three quarter million pounds, one year ago, this had increased to over 5 million; 1½ million up on three and three quarters. Even with inflation taken into account there was an increase, and probably in this financial year exports will rise to not very far short of 8 million, which is more than double in two years. Then, we can say that despite adverse factores, the company has at least been in a position to maintain its position, and to improve it by increasing exports."

How far the performance of the British economy in the last three years (1973/75) has affected the company and its exports plans, especially to the EEC.

a) The Devaluation of the £:

Although it helped export it did increase the cost bill of the imported material.

b) Inflation

Although the labour inflationary wages were restricted in 1975, and in 1976 inflation rate was high enough to effect their costs. These factors affected the competitive position of the company, however they have managed to keep the same price for the last 18 months.

In the meantime inflation effects have been compensated by the rate of the devaluation of the £, but sometimes, they have to pass it to their customers.

The Company, the EEC and the Future

We quote "About the future in Ireland the company is trying to maintain its position. In Germany it is having some difficulties, but the target for the other 3 groups, Benelux, France and Denmark is to increase sales."

ECONOMICS OF SCALES

Ability to use a larger plant at a lower capital cost

The company experienced this in the Fabric Division when they injected new capital in the weft knitting section, that they were able to obtain economics of scale.

Longer Production Runs

The only section where they can achieve the economies of scale by longer production runs is in the printing section. The more they can print out of cloth from one machine setting the more economies are achieved.

Economies of Bulk Buying:-

The company, because of its purchasing policy, experienced that form of economy of scale.

Greater Specialisation of Labour:-

The seasonal nature and the nature of their operations does dictate the type of labour employed, unskilled, semi-skilled, and highly skilled. So, the economies which they achieve exists only in a certain category.

Marketing Economies, i.e. Sharing Advertisements Promotion Costs etc.

The company does experience that form of economies of scale within different profit centres.

Ability to Achieve Technical Economies by linking together process in one production unit

In some production lines, the company were able to obtain that form of economy of scale, subject to the nature of the operations in the production lines.

Better distribution facilities.

The company is trying to economise in freight costs, and to find suitable means which can achieve both delivery targets and cheaper costs.

EFFICIENCY

Improved level of output per man.

The company has not improved its productivity in the last three years because production is not always constant. The efficiency ratio depends on the printing style in process and the wastages that occur, this differs from one printing to another. "This explains the fluctuating in our productivity rate."

General comment:

The benefit to Tootal Fabric Division has been the opportunity to get involved in a large home trade market effectively. An opportunity which they have seized and in the most part benefited from. They have been helped in this not only from the change of psychology in their own company, but also because of psychology of the EEC nationals with whomthey have to trade. They benefited by chance from the devaluation of the £, and also by the reduction in tariff.

THE EXPORT PERFORMANCE
OF THE COMPANY
From Jan. 1971 to Dec. 1975

1971 - 1975	Percentage of the increase
Total Export	67%
of which	
Exports to the EEC	
Countries	120%

CASE STUDY No. 20

COMPANY: Welton Bags Co. Ltd.

LOCATION: Midsomor, Norton, Bath

CONTACT: W.P. Smith, Sales Manager

Welton Bags Co. Ltd.

Midsomor Norton (Bath)

Background

It was a private company but now belongs to a group, and is a limited company. This was formed in 1937.

In 1920 it was started by two people as a manually operated printing shop.

The main activity is packaging in the carrier bags field.

The products are: paper bags, polythene bags, paper carrier bags, and polythene carrier bags and sheets.

Main Areas of Marketing:

The UK is the main marketing area. They export to Nigeria, the West Indies, Ceylon, and to Canada. Total exports come to 5% of the total sales.

Channel of Sales:

4 or 5 of their customers represent 50% of their total sales, they deal with them on a direct sales basis. The rest are dealt with through agents, merchants, and stationers. They do not have sales representatives. The sales manager and the M.D. deal with the complaints of their customers.

Market and sales functions:-

The same workforce do both jobs, but only three people are involved.

A new market, if it seems to have great potential, will receive the complete attention of the sales force.

Competitors:-

They do face fierce competition. There is a federation for their business, consisting of 150 members. The paperbag market has

been a declining market for five years. Everybody has been reducing prices and the German companies, who are in this country, tried to take advantage of the situation.

There are other foreign companies working here through agents. One of these main competitors is a French company with agents in the UK, Germany, and Belgium. Their prices are very competitive in comparison with the company's and they have the advantage of reducing cost through volume.

Pricing Policy

It is dictated by what the market is able to bear; their policy worked on cost plus base. In the last three years the input prices were changing very rapidly, so price followed suit, really uncontrolled.

They increased and decreased due to the shortages or surpluses in the market.

Pricings were determined with each order, according to the costs occurred.

Capacity:

They now have spare capacity. Three years ago they were in two shifts; now they work in single shifts. At the moment there is an unforseen boom in their business, so, they do not anticipate using the spare capacity in the near future. They are hoping their customers will start building up their stocks again.

Special features the company possess:

Patents: They are covered by patents regarding the machines used to produce special bags.

The only item which is patent in their products is the design of the bags which is unique.

Monopolistic condition: It is a highly competitive market but occasionally they produce a carrier bag which sweeps the market.

Experience:

Their past experience plays a very important role in their trade especially on the printing side. Their labour force and management are assets in their success.

Growth of the Sales and investment:

They are expanding their share in the trade. In 1969, the turnover was £700,000, it is now close to £4m.
Their growth in investments is about 12% a year. They have nearly doubled their size in the last 9 years.

Productivity

It has been declining in the past four years; basically because they did not take advantage of the boom three years ago (1973).

R & D.

It is dictated very much by what the customers are looking for. Occasionally they think of a new line, for instance they introduced recently a high priced polythene coated carrier bag, and they expect that the demand for it will increase. However they received only two orders from a customer who liked it. They believe that this is due to the economic situation.
Customers tend to favour cheaper products.

THE COMPANY AND THE EEC

A) General View

The company has not made any strong efforts to get into the Common Market. One of the main reasons for this is that products in their area are coming into this country from Europe at a lower price than they can retail their produce. The duty has gone up regarding EFTA Countries but even so Norway, is still able to get better percentagein the Northern Ireland market than the company. The Norwegians are able to sell at 10-15% less than the company can.

Germany is still able to make heavy price cuts. The company would not be able to export to them, unless the demand in Germany goes up to such an extent that prices rise; then they might be able to compete. When the demand in the UK meets the level of their production capacity, there will be no point in trying to penetrate the EEC. Their present production capacity, just meets the demand in this country so they have very little spare capacity. There is some spare capacity in paper bag manufacture but this is true of their German rivals as well. This is due to a shift in demand from paper to Polythene bags. Many companies have been cutting prices, so margins are very small.

If the company decides to export paper bags, it inevitably leads to losses. However this would keep their machines going, and their vast investment in equipment would not be idle. This spare capacity creates a need to penetrate the EEC market, but also forestalls it. If they could recognise a long term trend in export to the EEC, i.e. if they received orders from a certain company, which they were sure would be maintained for some years, the company would be happy to penetrate the market. For example, they have been dealing with "Marks

and Spencer" for a considerable number of years. Although they sometimes lose from some of their orders, Welton are parpared to accept this in order to maintain their contracts. They have one customer in the Common Market called "Meditac". They were passing orders to the company worth £500; currently their order is worth £1200. It involves a whole range of products for hospitals. They will keep buying from them as long as prices are suitable. Prices are the main factor in their dealings. If they could get contracts in the EEC of that kind, they would proceed without any hesitation, but six months worth of business would not be economically worthwhile. They have to be sure that they are going to have a trend of demand which can be maintained.

This is always true, even in this country. If they are certain they are going to hold business, they will accept it. They are not producing a unique product but a wide range of products, and certainly they are not the only company who are capable of producing this range. Every item they produce could be produced by other companies at a different price, it would therefore become a question of finding another use for the product. Another thing would be to sell the product in Europe either by advertising or by visiting outlets in an attempt to pick up the odd order. Here they must consider if the travel is worthwhile. For instance the sales manager went to Austria 2 years ago to buy products. While he was there, he tried to find out if he could sell some sterilisation bags. He got the order, and they received the bags, but it took the company 9 months to obtain their money, and they have not heard again from the firm.

The best thing they can do in the EEC is to gain trade through advertising. They have already put adverts in a publication called "Export caller", however it is quite expensive. In the first one they put their agent's name; in the second the company's. They

had no enquiries from the first one. After the second one, they received enquiries from Africa, the West Indies, the rest of the world; but none from Europe. This may be because the companies products have a unique characteristic, although they do produce a high quality, good class of printing which could be considered the cheapest in the market. Possibly what is wanted it for company representatives to go out searching for orders. However they would be completely unable to lower prices to meet those of any competitor. One of the disadvantages of being a specialist is that if any changes happen in a particular market, the specialist might find it difficult to adapt. For example paper packs is a highly specialised field in this country. They were made in two or three sizes, and over the last two years, due to a change in demand, manufacturers of paper packs came very close to bankruptcy. One of them, who employs over a thousand people, reduced their work force to 100 as they saw that demand was not enough to employ such numbers. They also cut down on any line which did not pay.

Welton say that if they find a customer abroad who can buy these kind of products, like "M & S" and Harrods, they will be happy to supply them. However, for their line of products it is better if the customer is near to them. They can easily order something, have it altered and receive it in the time required. It is difficult to do that in international trade; the customers abroad lack the flexibility to call the company over night to rush an order or cancel it. In their trade the customer must look abraod for their merchandise only is what is offered abroad is so cheap, or the goods unique. They have to find a large customer abroad to make the foreign dealings worthwhile.

B) The preparation for the Market (EEC)

"It is over three years since Britain joined the Common Market."Since that date, they have not formed any policy to penetrate that market. Again it depends on the potential customers there. If they do not expect constant and steady orders from the EEC market, they believe it is not worth trying.

Even so, they have placed some adverts in some French and German magazines. It was very expensive and all they obtained was one order worth £150. So, this did not pay. The reasons for that is the nature of their products which being basically packaging products can usually be bought locally.

They also appointed an agent in France, but their experience with him was not satisfactory because of the price policy which he wanted to pursue.

C) The restructure of the sales and the marketing functions

I quote:"We have done nothing in that respect, we are a small company, the two functions (Marketing and Sales) are linked together. The labour force engaging in them consists of two people and the M.D."

D) Barriers to entry other than tariffs in the company's case:

These do not apply to their products (i.e. National feelings, Standards, Government purchasing and legislation). The only barrier they experience is the price factor, which they could not meet in some of the EEC countries, especially freight expenses are taken into account. These sometimes come to half the price of the product.

Efforts for the New Market, and the acheivements ahead:-

They have been approached by a number of advertising organisations to advertise in their publications. One of them was the "Common Market Telephone Directory". With the high costs they came to the conclusion that, without any guarantee of results, it was too prohibitive as only a limited number of people would see the advertisement. Over the last six months they have done £7000 turnover in the Common Market area in terms of small jobs. There are also several large contracts worth £60,000. The main one is in Canada, there is a £5000 contract in Hong Kong, and one worth £2000 in Singapore. The company quoted a suitable price and they bought. The Canadian order is the only one, which the company anticipates, will continue until a cheaper way is found to meet their demands.

Welton's dealings with the Common Market countries depends on the potential customers they, find who are willing to buy on a continuous basis, like Marks & Spencer in the UK.

They do not find promoting by advertising a successful way, as any customer requiring bags, for example, will go first to the local manufacturer. They have no plans to set up any plants in the EEC countries, although they have considered it. The finance they would need is the prohibiting factor.

Looking Ahead

A) Potential activities:

I quote: "Unless the company decides to buy another company, I cannot see any change in expansion outside the products we produce. It might happen that somebody takes us over and injects £1m into the company. In that case we might think of spending in the EEC Market."

B) Potential competition:-

They believe there is always a possibility that American or European companies could buy into the UK and establish a subsidiary in their field of products.

The turnover and Export in 1973-1975 (£ · 000):

Turnover:	1973	1974	1975
	2,000	2,500	3,750

Exports: Export figures are 5% more in the year 1975.

CASE STUDY No. 21

COMPANY: Redcliff Inks

LOCATION: Yate, Bristol

CONTACT: J.A. STROPHAIR, Sales & Marketing Manager.

Redcliff Inks, "Yate, Bristol" - D.R. Group

Background

They are part of the D.R. Group, Bristol. Generally the group, although oriented on a central base, splits up for marketing purposes into a variety of sections as profit centres. These are part of DRG Packaging.

Redcliff Inks are different from the other sister companies in the group, due to the specific nature of their products.

The Redcliff Inks produce only varnish and lacquer, but the DR Group produce a multiplicity of things, many are prints products, because DRG are a packaging concern. DRG do not use Redcliff Inks, because their product is specific, and they are a tiny element in the DR Group.

Redcliff Inks competes in the open market against established companies in a specific field. There are not many people in the packaging-ink industry, apart from newspaper ink which is regarded as somewhat different. Redcliff Inks are specific in their products.

Primarily Redcliff Inks are working, and are interested, in the marketing operation in the British Isles. They do a small amount to the Common Market countries, and to Nigeria.

The DRG companies were aware of the implications of the Common Market and have made different moves towards establishing themselves on the Continent. They acquired a trust in a French envelope company, and purchased a company in Belgium called "Tashi". These were acquired for the company to spread as a general market practice, and also to give the company a foothold in the EEC Market.

Redcliff Inks employs 100 people. The Group employs 27,000 people. The headquarters of the group is in Bristol. The Redcliff Inks was established in 1948, and the group was established 150 years ago. It started as a tiny envelope factory. It was a family concern established by "Robinson".

Their main area of marketing is at Bristol, because the sister companies in the group's printing outfit are situated in Bristol. But they are moving into Liverpool on Mersyside, where they have a small depot.
In London and the South-East, they have paper bag companies.

Special Features:-
Licence and Patent:- There are one or two specific products which are protected by licence which they market for other people. These are however very few.

Experience:- Redcliff Inks is a specific company. They have technicians who need 10 years to get to know their trade, and the trade is not static. In the old days packaging was a paper pack and coloured paper. Now they are using new materials and new designs in the packs, an example is the sweet pack, it needs paper, polythene, aluminium foil, and ink, that is four partswrapper.

Monopolistic conditions:- They have no monopolistic conditions, but are facing fierce competition, and they hold their market by their services. Only very rarely does one ink company get ahead of others, and the others usually catch up on the methods this company achieved.

Main Competitors:- Coats Bros., Fishburn, and Allenby, these are their three main competitors. They are British firms, except "Coats Bros" which is American.

Share of the Market:- This is too difficult to estimate. They are at the top of the second division, the large concerns are those who supply the newspapers and publishers. But Redcliff Inks can specialise in one or two areas, and hope to provide a highly

technical service. However, they are not a market leader in the field they are in.

Channels of distribution:- They use agents, but also sell directly to the printers.

Pricing Policy:- They have a very flexible pricing policy. There are two lines in their trade. One is the 'bread and butter' line, the other is specialist. The latter is one which can be produced through technical knowledge, that gives freedom in deciding pricing policy. The competitors prices also are a guide for them.

R & D:- The technicians in their big laboratory are their R & D force. They are essential to the trade they are in.

Marketing and Sales:- The two functions are done from their work force. They are the sales force, and handle the marketing function as well. Their size prohibits having two separate functions.

Capacity in use:- They are heading at this stage to full capacity, orders have improved considerably in the last two months. The recession has affected their capacity, customers are not ordering in as large quantities, so their machines have not been working to full capacity.

Brand name:- They are trying to identify their products with the letters "R.I.", to become a feature on packaging. Another thing is having inks for a certain use.

Production times:- Production times are run according to the individual order, each has its own requirements and set up. "Marks & Spencer" is one of their dealers; Redcliff Inks are trying to maintain a good service for them, and keep some finished goods in store as well as some material "ink" to meet anticipated orders.

They are running their production lines by orders, except for cases such as this. This is because changes in the requirement of orders always occur.

The company and the Group:- The sister companies buy their inks, and experience, from them as their product is a specific one. They benefited from their contacts, but being one of the Dickenson Group can be a drawback as they are supplying ink to the competitors of their sister companies. So, they have to establish a great degree of confidentiality, anything they do for competitors will not be passed to their sister companies. Some of the competitors of the group will not deal with Redcliff Inks as they are part of the group.
The service provided to their ink buyers is hampered, as their technicians are not allowed on the shopfloor as they are DRG men, and has to be regarded with suspicion by competitors.

Profitability:- The profit is bad because of inflation, the escalation of costs of materials. That affects their efficiency in serving the buyers, because to carry out their service, they have to have a big turnover. In practice they sell some of their products at loss to maintain customers.

Marketing other Products:- They market only a couple of items, and they do that as a service to the customer (e.g. sprays to dry inks) This is a minimal situation.

Modification of the products:- They are always modifying their products. They have to, because a typical printing ink may contain 10-12 elements and much can be done by altering the constituents of the final ink. This is not just with regard to colour.
An example of modifications needed in relation to 'Jacobs Cream Crackers'. The packaging colour is orange, based on black and yellow ink. They did investigations on the users of their black ink and found three major companies needed different black for different

heat resistance properties. So, they modified their products to meet the requirements of each, using three different ink types, each with special features regarding heat resistance.
An ink has to do a certain job for a certain machine capable of a certain performance. The machine at one end receives the packaging materials, and from the other produces the packs. The intermediate product is the ink, and Redcliff are constantly pressurised to produce inks to meet the customer's, the machine's, and the packing requirements.

The UK Economic Performance and the Company:-
Printers do not build up stocks, so the company has to be ready for small, quick orders. They always have spare capacity, and inefficient working, as they have to switch production lines to new orders. They will do this to maintain customers, especially if the order comes from a first-time customer who is given better service than a regular one.
80% of the orders they received are for completion in a very short time, two or three days. That is different to a printer who can order paper for five or six months ahead, and set his plans accordingly. The company's work is not planned because their competitors dictate their activities (they are not the market leaders)
A printer in Bristol can ring the company and ask them for a certain type of ink, if the company can not supply this ink, he will go to other suppliers.

Trend in growth of the sales in the last 5 years:- The market was quiet until the energy crisis and the recession came about. The general trade recession slowed their sales growth rate considerably.

The Export situation:- They sold a large quantity of inks to Ghana and Nigeria. This was because one of their sister companies

sold reprinted products to them, and the customers wanted the ink to do the printing themselves.
The group has done better than the company in the EEC. The company sold to Germany lacquer for decoration as they are superior in this product.

The Company and the Common Market

The company have not done anything yet to approach the common market, except a visit made by their M.D. and sales representative to some countries of the EEC. In Holland they approached several businesses offering the company's goods and services. Interest was shown, but orders never materialised in spite of the follow up pursued by company many times.
Redcliff ink do think about the new market, but there are several key factors affecting what they do.
For the time being, they decided to concentrate on the UK market, to get things right there before going into the Common Market.

Factors working against the Company in the EEC Market

The Germans, with their advantageous geographical location compared with that of Britain, allow them to get the goods to the buyers quicker than Redcliff.
Transportation and its cost is one of the barriers preventing the company from approaching, and competing in the Common Market.
Another factor is their limited capacity, which is not prepared to meet the anticipated new demand from the Common Market.
The company's products also have a disadvantageous factor, because the Germans compete with them, in this country as well, in the "base ink". This is an expensive ink, and therefore, by virtue of the costs, gives a larger margin to manipulate. The German product is a longer run, and has the advantages of the economies of scale and mass production. The Germans trade in this country with the big printers, who need this expensive ink (about £5-6 per kilo) This gives them a good margin to swallow the cost of the transportation, also this ink is non-hazardous, it

can be moved easily and freely. Spirit inks, like the company's product, are highly inflamable and should be treated as a hazard, making the transportation problem more difficult. Occasionally the company does not find the transportation means prepared to accept such risks.

Another factor which gives the Germans a foothold in Britain is that they provide machines to make the packs, and they promote with them their inks which are easily accepted.

The length of time Britain has been in Europe, compared with how long the Germans have been there, is against the company. Britain came in at a time when Germany was without competition. Germany had much more favourable terms on which they competed, especially in the pre-entry conditions, the duties, VAT that put up the company's prices, "and all the rest of it!" So the company feels that it was beaten before they started.

The company was asked if they had any practical policy to start working in the EEC.

The answer was the Common Market 'is just news in the papers', but the board may have some thoughts about it.

Sources of Competition in the EEC Market

In the Common Market, the main competitors of the company are the Germans. They compete in Britain as well, where their share of the market is around 10%.

Share of the Market

The company's share of the market is not specified, because the only market survey has been done more than 7 years ago. There are also statistical difficulties in valuation.

The experience they gained from dealing with the EEC

They have not gained any experience from dealing with W.G. The experience they gained from their dealers in S. Wales is much more important.

Certainly they discovered nationalistic feelings in Holland, but they didn't learn to counter these.

Looking Ahead

What are the activities the company will be involved in?
This is very difficult to assess because they are not the market leaders. They compete within the market, and they hope to maintain their share of the business. They would need a "crystal ball" to see if the market will be as good as expected.
There are plans of course, speculation is that there may be a new packaging material, or new insulating methods. However the attitude of their competitors will dictate for them their own activities.
Another related point is that during the last two years there has been marked changes in the materials they are using, due to customer's requirements which call for inks with different qualities to those used before. The company considers that proof that they adapt their production according to the market requirement (e.g. the changes of the packaging of food, away from paper to polythene). The changes are happening very frequently, in a short period of time.
The users decide for the company which way it will go.

APPENDIX I : List of firms interviewed as Cast Studies and their reference numbers used in the tables in Chapters V, VI and VIII.

Company	Ref. No.
Rolls-Royce (1971) Ltd. Bristol Engine Division	1
Reed Group "Paper Division" Reed Paper and Board (UK) Ltd.	2
Dexion-Comino International Ltd.	3
SKF (UK) Ltd.	4
Worthington-Simpson Ltd.	5
Mars Ltd.	6
The Associated Octel Co. Ltd.	7
D.R.G. Flexible Packaging	8
Compair Industrial Ltd.	9
Ranco Controls	10
International Rectifier	11
James Clark & Eaton Ltd.	12
Ferodo Ltd.	13
Bendix Westinghouse Ltd.	14
Foden Ltd.	15

Company	Ref. No.
CAM Gears Ltd. (Hitchin)	16
The GALA Cosmetic Group	17
Pasolds Ltd.	18
Tootal "Fabrics Division"	19
Welton Bags Co. Ltd.	20
Redcliff Inks	21